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FINAL REPORT ON THE ANTI-INFLATION GUIDELINES BY THE PAY ADVISORY COMMITTEE, 1979-80

A STUDY

PREPARED FOR THE USE OF THE

JOINT ECONOMIC COMMITTEE

CONGRESS OF THE UNITED STATES

DECEMBER 31, 1982

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LETTERS OF TRANSMITTAL

DECEMBER 10, 1982.

To the Members of the Joint Economic Committee:

I am pleased to transmit the "Final Report on the Anti-Inflation Guidelines by the Pay Advisory Committee, 1979–80," as a study prepared for the use of the Joint Economic Committee. The Final Report was made available to the Committee by former Chairman John T. Dunlop of the Pay Advisory Committee.

There has been little discussion in the past two years of the need for a direct policy to control inflation. Nevertheless, this question is quite certain sooner or later to come around again. Nothing in American experience suggests that a long recovery of reduced production and employment can be sustained without generating pressures on materials and energy costs and on wages. Unless the inflation which results from these pressures can be contained through a policy dealing directly with costs and incomes, we will once again at some distant date in the future face strong pressures to deal with inflation by suppressing economic growth and allowing unemployment to rise.

The experience of the Carter Administration in fighting inflation was an exceptionally difficult one. But one should not look only at unqualified success in this area. The Pay Advisory Committee worked diligently within the limits of its authority and has left a record which will be of considerable value to future designers of anti-inflation policy. I recommend this document which Chairman Dunlop has been kind enough to make available to the Joint Economic Committee for its thorough review and frank assessment of the experience of the Pay Advisory Committee.

Sincerely,

HENRY S. REUSS,
Chairman, Joint Economic Committee.

DECEMBER 10, 1982.

Hon. HENRY S. REUSS,
Chairman, Joint Economic Committee,
Congress of the United States,
Washington, D.C.

DEAR MR. CHAIRMAN: I transmit herewith the "Final Report on the Anti-Inflation Guidelines by the Pay Advisory Committee, 1979–80," as a study prepared for the use of the Joint Economic Committee. The study has been made available to the Committee

by Professor John T. Dunlop of Harvard University, former Chairman of the Pay Advisory Committee.

The Committee wishes to thank Chairman Dunlop, Peter A. Tchirkow who assisted in the transmittal of the Report to the Committee, and the joint labor management staff of the Pay Advisory Committee which prepared the Report.

I believe this Report will stand as a useful resource to future students of the design of anti-inflation guidelines. The views expressed herein are those of the Pay Advisory Committee and do not necessarily reflect the views of the Joint Economic Committee or of individual members.

Sincerely,

JAMES K. GALBRAITH,
Executive Director, Joint Economic Committee.

HARVARD UNIVERSITY,
Cambridge, Mass., February 16, 1982.

Hon. HENRY S. REUSS,
Washington, D.C.

DEAR HENRY: In accordance with our conversation on the telephone on February 4th, I have asked to be delivered to your office a copy of a report on anti-inflation guidelines and the Pay Advisory Committee, 1979–80. As you will recall, the Pay Advisory Committee was a tri-partite committee of 18, of which I was the chairman, appointed by President Carter. All recommendations of the Committee over the 15 months were unanimous. The joint labor and management staff prepared a report on the work of the committee and on the policies of the stabilization program which has been endorsed by the members of the committee.

I believe the publication of this report by the Joint Economic Committee would constitute a contribution to the continuing dialogue on anti-inflation policies in the United States. The report is distinctive in that it represents the common views of labor, management and public representatives on the Committee. I would hope that its views would be taken into account in the formulation of any future program.

Sincerely yours,

JOHN T. DUNLOP,
Lamont University Professor.

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SUMMARY

During the first several weeks of the Pay Advisory Committee's existence, a determination had to be made as to whether to make marginal adjustments only to a program that had little credibility within the business and labor communities, or to clear the decks and start afresh. Time constraints were evident; there was an existing administrative mechanism and established regulations; Committee members had not previously worked together. For these reasons, the Committee proceeded to recommend needed changes in the council's program and approach slowly, despite fundamental dissatisfaction with the existing program. These changes may be summarized as follows:

More Voluntarism

It was the view of the Committee that a stabilization program based on voluntarism needed to be conducted that way. The existing program was characterized by a highly legalistic approach to pay and price deceleration, with numerous and detailed regulations. The Committee's existence, and its move toward self-administration of the standards, exemplified a voluntary effort.

More Conventional Cost Estimation

Many of the negative perceptions of the first program year guidelines centered on the use of artificial cost estimating techniques versus more traditional and understandable cost estimates. The Committee's recommendations on recognizing the importance of pension benefit levels as well as costs, and the move to self-administer low-wage employees on a unit wide basis, reflected the desire for more conventional costing familiar to practitioners.

More Pragmatic Pay Standard

The Committee felt that a pay range rather than a single numerical standard was more appropriate in achieving cooperation with a voluntary program. Criticism that the standard was loosened to negate any real wage constraint cannot be supported. When the first year pay standard of 7 percent was announced on October 25, 1978, the CPI was increasing at a rate of about 8.0 percent. The second year pay range was implemented at a time when the CPI was running at an annual rate of over 13.3 percent. The 7.5 percent to 9.5 percent range was clearly more stringent in calling for a greater decline in real wage rates. Moreover, average hourly earning data for 1980 demonstrate that there was a wide dispersion of earnings changes—wage increases did not cluster at either the bottom or top of the pay range.

Sanctions

It was the general consensus of the labor and management groups that the use of sanctions (either to threaten or withhold government contracts) was inappropriate, counterproductive to a voluntary stabilization effort and unfairly directed at only portions of the economy expected to comply. The program was based on executive branch order, and at no time did the program have a legislative base to permit mandatory controls.

Dispute Settlement Role

It was the Committee's view that the voluntary program should not interject its presence into the collective bargaining process, either by suggesting acceptable levels of settlement or by using the press to exert pressure or discredit the behavior of either side in the process. Occasions in which the Council interrupted the bargaining process resulted in deep misunderstandings, ill will, and on at least one occasion aggravated an existing work stoppage. Although the Pay Advisory Committee did examine policy issues in specific settlements, it was done after the negotiations had been completed and only with the consent of the parties.

Wages and Prices Related

The Committee recognized the interdependence of pay and price policies. To this end a mechanism was established which permitted for close consultation between the Chairmen of the respective pay and price Committees and with key administration officials.

A subject of continuing interest relates to the tripartite participation in the *administration* of an incomes program as well as the understood role in formulating policy. Many noted economists with prior stabilization experience have argued that tripartite efforts such as the Pay Advisory Committee, should focus their activities, in the main, on developing broad policy consensus. The Pay Committee felt that under the circumstances it had to address important administrative issues, such as Council case handling procedures and the appeals review process. This interest reflected labor and management concern with due process considerations and its desire for more flexible administration of a voluntary program.

The Committee viewed its own tenure as basically short term. In its first policy statement issued January 22, 1980, the Committee noted that 1980 should be a transitional year with a return to free collective bargaining and market practices as soon as is possible. The Committee recognized that a longer term stabilization effort would require policies to deal with the complexities of various sectors of the economy. This sectoral approach was notably absent in the 1978–80 voluntary program.

In the 13 months between October 1979 and December 1980, the Committee issued 16 unanimous recommendations on a variety of pay matters. The results of the Committee's actions reflected a commonality of interest in seeking solutions which largely echoed the views of the labor and management communities. The use of Committee subgroups was extremely important in expediting the resolution of difficult issues. The technical assistance of the labor

and business support personnel (i.e., the joint staff) added additional strength to the tripartite structure.

The ongoing work of the Committee, and the relationships that were developed in the course of its business, provided a base upon which longer term labor-management cooperation could be forged. In fact, shortly after the termination of the guidelines program, a top-level private labor-management group was established to address and seek solutions to long term economic and social problems. A number of Committee members provided the nucleus for the reconstituted labor-management group.

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I. ADMINISTRATION AND WAGE GUIDELINES DURING FIRST YEAR OF ANTI-INFLATION PROGRAM

On October 24, 1978, President Carter announced an anti-inflation program, one element of which was a set of voluntary pay and price guidelines. The guidelines were to be administered by the Council on Wage and Price Stability (COWPS), which was created in April 1974, subsequent to the expiration of the Economic Stabilization Act of 1971. The Economic Stabilization Act of 1971, which established the mandatory controls of 1971–74, was legislatively not renewed in the spring of 1974. Among its various responsibilities, the Council on Wage and Price Stability monitored pay and price matters. The Council was specifically denied the authority to administer mandatory wage and price guidelines. The Council's legislative authority was clear on this limitation:

> Nothing in this Act authorizes the continuation, imposition, or reimposition of any mandatory economic controls with respect to prices, rents, wages, salaries, corporate dividends, or any similar transfers.

Nevertheless, in the fall of 1978, President Carter announced the creation of a full set of "voluntary" wage and price guidelines, with specific mechanisms to encourage compliance. The Administration emphasized the voluntary nature of the guidelines, fully aware that legislation did not exist to authorize mandatory controls. However, both the first and second year of this anti-inflation program included policy and administration closely paralleling a mandatory wage and price program. The specific issues and problems shared by both labor and management will be examined later in this paper, as well as the actions and recommendations of the Pay Advisory Committee in its efforts to shape policy.

As background for the Pay Advisory Committee's activities, it is necessary to review the first year of the wage and price guidelines (October 1978–September 1979) both in terms of general stablization philosophy and the details of the wage guidelines and their administration.

The wage standard as announced was focused on the objective to hold down wage increases and break inflation.

The pay and price standards were designed relative to each other. The program was based on a projected rate of price inflation of 6 percent and a wage guideline of 7 percent. It was assumed that other labor costs would increase an additional 1 percent for an increase in total compensation of 8 percent. It was also projected that the 8 percent total compensation figure would be adjusted by a productivity growth rate of 2 percent, thus resulting labor costs would rise at a 6 percent rate.

The price deceleration standard was derived by deducting one-half percentage point from the average company annual rate of

price increase over the 1976–77 period. Companies were permitted to use an alternative profit margin exception, which allowed for unit cost increases to be passed through on a percentage basis up to 6.5 percent and on a dollar-for-dollar basis thereafter. The standards anticipated inflation to be about 6.5 percent in the first year of the program.

There were three areas of compensation excluded from the 7 percent wage guidelines: (1) Employer contributions to legally mandated benefit programs, (2) a set portion (that above 7 percent) of the increased cost of maintaining existing health-plan benefits, and (3) the increased costs of maintaining a pension fund with no improvement in benefits. The standards applied only to those agreements and pay plans in effect on or after October 25, 1978. Agreements and pay plans in effect prior to that date were exempt.

Multi-year agreements were permitted to front-end load up to an additional 1 percent in any one year of a multi-year agreement, as long as the 3-year average did not exceed 7 percent compounded. COLA adjustments were required to be evaluated assuming a 6 percent annual inflation rate. The treatment of variable compensation and incentive pay plans required the inclusion of all such forms of compensation.

The Council's reporting and notification procedures required the identification of three separate employee units: (1) Each collective bargaining unit, (2) all management personnel, and (3) non-management employees not covered by collective bargaining agreements. The Council Regulations did not provide for a specific small business exception, as was the case during the 1971–74 period.

The Council developed 87 wage question and answers which were intended to further clarify the application of wage standards, with respect to definitions, coverage, exception criteria, and treatment of pension and welfare benefits. Throughout the term of the first program year and to some extent during the second year, the Council relied heavily on regulations and Q&A's to administer the voluntary program. The views of the Pay Advisory Committee with respect to a legalistic and regulatory approach to a voluntary wage-price guidelines will be discussed in Part IV.

The first program year wage guidelines provided five general exceptions categories to the 7 percent wage standard. Parties could solicit approval from the Council (above 7 percent) if they could meet the criteria of one of the five general exceptions: (1) Tandem, (2) low wage, (3) productivity, (4) acute labor shortage, and (5) undue hardship/gross inequity.

1. The Council permitted wage exceptions above 7 percent based on historical leader-follower relationships. Parties could claim tandem to maintain historical supervisory differentials; for union and non-union groups of the same company; for union and non-union groups in a local labor market area; and for two separate collective bargaining units. Specific restrictions necessary to meet the tandem test included: the leader-follower relationship must be equal in value and directly related in timing; industry-wide bargaining, in which the lead company varied over several negotiations, was not recognized as meeting the tandem test, even though timing and amounts of increases were comparable between compa-

nies; the lead agreement must have been in compliance with the pay standard for the follower to claim the tandem exception.

2. In the first year of the program, employees earning $4 per hour or less (straight time hourly earnings) were exempted from the wage guidelines. The low-wage exemption applied to individual employees, rather than employee units. Employers were required to exclude the low-wage employees when computing allowable pay increases.

3. The Council permitted an exception for pay increases based on unusual productivity gains. There were several restrictions in that the exception applied only to collective bargaining units and the productivity improvement must have been linked to a contractual work-rule change. The parties also had to demonstrate that the cost reductions generated by the work-rule changes were equal to or greater than the excess of the pay-rate change over the 7 percent pay standard.

4. In order to permit employers to retain or attract workers in occupations that were in significant short supply, the Council permitted a separate exception covering those situations. Necessary documentation to warrant an acute labor shortage included: (1) Evidence of the number of vacancies; (2) time required to fill vacancies; and (3) changes in entry-level pay rates.

5. The fifth exception provided special recognition to employers and employees suffering special hardships. To qualify for this exception, a situation had to be manifestly unfair in the Council's view.

In summary, stabilization efforts in the first year were characterized by the following:

1. A single numerical standard for the total economy applied against employee groups on a weighted average basis with no sectorial or industry based considerations.

2. Policy and administration of guidelines without formal business or labor participation.

3. Use of government sanctions threat to secure cooperation with publication of the list of non-compliants.

4. No approach to control executive or union officer compensation and professional fees beyond those applicable to all employee groups.

5. Inconsistent policy in area of dispute resolution.

6. View to control compensation costs exclusively rather than benefit levels.

7. Legalistic approach with complex wage and procedural regulations and reporting requirements.

8. No plan for withdrawing from controls.

II. TRANSITION FROM FIRST TO SECOND YEAR OF ANTI-INFLATION PROGRAM

The first program year of the wage and price guidelines was scheduled to expire at the end of September 1979. A month earlier, COWPS had published its *Issue Paper* seeking comments and recommendations on possible modifications to the standards program. Business reaction to the Issue Paper reflected lukewarm support for continuation of the program as the business community expressed increasing concern with the proliferation of the regulations and increased costs required to comply with the program. On the labor side, strong opposition with the controls program had been registered. Labor had strong reservations with the administration of the program and with a number of the elements of the pay standards.

During the summer of 1979, representatives of the AFL–CIO met with the top Administration officials in discussions of specific economic problems, priorities, and policy. Culminating those discussions was an agreement entitled *The National Accord* reached between the Administration and the AFL–CIO on September 28, 1979. The Accord established a seven-part framework for labor's participation in the development of economic and social policy. In the areas of pay and price policies, the AFL–CIO agreed not to oppose the continuation of the standards program in return for an active role in the formulation and administration of the second year of the pay standards. The Accord (attached as Appendix A) noted, in part:

> An important aspect of the anti-inflation effort is responsible behavior with respect to pay and prices. For the past year a voluntary program of pay and price restraint has been used. In present circumstances, continued restraint is required on the overall levels of price and compensation increases consistent with achieving a reduction in the rate of inflation. After extensive public consultations, the program for the second year has been established with provision for greater public participation. . . . Direct participation by labor, business, and other public representatives will make a major contribution toward a fair and workable program which will achieve the overall goals.

Thus, on September 28, 1979, President Carter issued the Executive Order (attached as Appendix B) which set the basis for the second year of the anti-inflation program. Part D of the Order directed the Council on Wage and Price Stability to "reconstitute in accordance with the Federal Advisory Committee Act, a Pay Advisory Committee and a Price Advisory Committee in order to provide greater participation by the public in the anti-inflation pro-

gram." Two days later, on September 30, 1979, the Charter of the Pay Advisory Committee was announced specifying that the Committee was to submit recommendations as follows:

> . . . for modifications, if any, to the pay standards, including specifically, the basic pay standard, the inflation assumption for evaluating cost-of-living adjustment clauses; the threshold for the low-wage exemption; the treatment of increments and tandem relationships and the appropriate adjustment for employee units not covered by cost-of-living adjustment clauses.

The Pay Committee was also to recommend new or revised interpretations of the pay standard and to make such other recommendations that assure fairness and equity consistent with the overall objective of the anti-inflation program. The Chairman of the Cost of Living Council, Dr. Alfred Kahn, invited the Committee to take a broad view of its assignment. The Charter for the Pay Committee specified that the Committee would continue until September 30, 1980, unless the Council terminated it earlier, or extended it, in accordance with the need and public interest (Appendix C).

In view of the National Accord between the AFL–CIO and the Administration, business reaction to the establishment of the Pay Advisory Committee was mixed. Major business organizations had serious reservations about the advisability of a tripartite committee and would have preferred the elimination of the program or, at least, of those inequities that, in their view had characterized the first program year.

With the formulation of the Committee, the wage councils, task forces and staff of the four major business associations agreed to coordinate their efforts to support the business side of the Pay Advisory Committee. Representatives of the Chamber of Commerce staff, the National Association of Manufacturers (NAM) Task Force on Wage and Price Stability, the compensation committee of the Conference Board and the Employee Relations Committee of the Business Roundtable began a series of informal meetings coordinated by the NAM. This group which came to be known as the (business) joint staff developed a series of recommendations around specific requirements, as well as a strategy for business members in dealing with stabilization policy. The joint staff received additional assistance and counsel from companies like General Electric and General Motors and from a number of small business and industry specific groups.

The 18 member tripartite pay Committee held its organizational meeting on October 17, 1979. The Committee met in 15 sessions during the 13 months ending on November 17, 1980. The Committee issued unanimous recommendations with respect to over 16 specific pay issues, including, of course, specific changes in the pay standard. The specific Committee actions will be discussed in the following section.

III. COMMITTEE STRUCTURE AND OPERATIONS

The Pay Advisory Committee consisted of 18 members—6 each from labor, business, and the public. The President appointed John T. Dunlop, Harvard University, and former Secretary of Labor, as the Committee's Chairman, and subsequently appointed the labor, business and remaining public members. Representation on the Committee reflected a broad cross section of national expertise on labor economic matters.

Public members on the Committee were as follows:

John T. Dunlop, Chairman, Lamont University Professor, Harvard University
Arvid Anderson, Chairman, Office of Collective Bargaining, City of New York
Robben W. Fleming, President, Corporation for Public Broadcasting
Lloyd Ulman, Professor of Economics, Institute of Industrial Relations, University of California, Berkeley
Phylis A. Wallace, Professor of Management, Alfred P. Sloan School of Management, Massachusetts Institute of Technology
Robert Nathan, Robert Nathan Associates

Business members on the Committee were as follows:

John T. Connor, Chairman and chief executive officer, Allied Chemical Corporation
Philip M. Hawley, President and chief executive officer, Carter-Hawley-Hale Stores, Inc.
Jesse Hill, Jr., President and chief executive officer, Atlanta Life Insurance Company
Heath Larry, President, National Association of Manufacturers
Charles R. McDonald, Chairman, Council of Smaller Enterprises
Norma Pace, Senior vice president, American Paper Institute

Labor members on the Committee were as follows:

Frank E. Fitzsimmons, General President, International Brotherhood of Teamsters, Chauffeurs, Warehousemen and Helpers of America
Douglas Fraser, President, United Automobile, Aerospace, and Agricultural Implement Workers
Lane Kirkland, President, AFL-CIO
John H. Lyons, General President, International Association of Bridge, Structural, and Ornamental Iron Workers
Lloyd McBride, President, United Steelworkers of America
William Wynn, President, United Food and Commerical Workers

The Committee's Charter provided for one alternate to serve in place of each Committee principal. Unlike previous tripartite organizations, the alternates were not staff support personnel, but rather were high level officials of their respective organization. In order to effect official Committee business, a quorum of four from

each side of the tripartite committee was necessary. The coordination in scheduling, preparation of the agenda, and other Committee business was handled by the staff of the Pay Advisory Committee in consultation with the joint staff and the Chairman's office.

The use of subgroups and staff subcommittees was frequent and critical to its success. The Committee was charged with making many recommendations to the pay standard. A substantial amount of ground work was needed to ascertain the consensus for changes in very technical pay arrangements. The time constraints for reaching Committee actions were pressing. The Committee was originally asked to submit its modifications to the pay standard by October 31, 1979. It was clearly prudent to use subgroups to initiate the review process, achieve consensus, and draft recommendations. A second practical value to the subgroup approach is one of efficiency and thoroughness. It is ultimately easier for a group of 6–8 representative individuals to meet to examine a policy issue than the entire 18-member Committee. The composition of each subgroup generally reflected the interests and the technical knowledge of the members concerning the issue under review. For example, a subcommittee to suggest modifications to the guideline treatment of increments included members from each of the three sides of the tripartite Committee who had special background and interest in the public sector, where incremental forms of compensation arrangements are more commonly found. The third factor contributing to the extensive use of subgroups was the requirement that meetings of the full Committee be open to the public (and press) in accordance with the provisions of the Federal Advisory Committee Act. There was a general consensus that the application of the open committee meeting requirement had a "chilling" effect on the Committee's work, especially since it involved what the parties normally view as issues of private negotiation, consensus reaching, and the need for the free exchange of views. Thus, most of the ground work in each area of revisions to the pay standard and other recommendations were done via the subgroup approach.

Role of the Joint Staff

Another important facet of the Committee's operation was the role of the Committee's joint staff. Early in the Committee's development, it became clear that the Committee would not utilize a large labor-management staff directly tied to the activities of COWPS and the Pay Committee. However, it was recognized that there would be an ongoing need for a quasi-permanent joint labor-management staff to assist in: (1) The actual modifications to the pay standard; (2) coordinate the development of general stabilization policy; and (3) to bring to the Committee's or the Chairman's attention other such issues which were perceived as important by the larger labor and management communities. Activities relating to the joint staff were coordinated, on the labor side, through Frank Pollara, Special Assistant to the President, AFL–CIO and Rudy Oswald, Director, Department of Economic Research, AFL–CIO. Business joint staff activities were coordinated through John Read, Director of Employee Relations and Personnel, Cummins Engine. Skilled members of various business and labor organiza-

tions were asked to contribute to the work of the ongoing subcommittees. This joint staff would then meet to gain a consensus on a variety of pay issues. With very few exceptions this approach worked and demonstrated the commonality of purpose in the tripartite structure. The meetings of the joint staff were held in closed session, with the Chairman being kept closely advised of the progress of these deliberations.

Because the Pay Advisory Committee generally convened only once per month, it was important that communications between the joint staff and the full Committee be kept current. To this end, an internal procedure was established in which the joint staff and key members of the Committee and the Chairman met privately, in a working dinner session, usually the night preceding the full Committee meetings. This accomplished, in part, finalizing joint staff recommendations and the opportunity to address any remaining issues in dispute; to resolve agenda items and priorities; and plan strategy for anticipating other pay issues that might surface. In summary, the role of the joint staff was an important cog in the operations of the tripartite Committee.

Role of the Pay Advisory Committee Staff

In addition to the activities of the joint staff, early in the work of the Pay Advisory Committee, the labor and management principals concluded that there was a need for labor and management staff based at the Council on Wage and Price Stability, to assist the Pay Advisory Committee in its functions and to work closely with COWPS on pay matters. Previous tripartite committees in stabilization periods had also used staff to support those committees.

On March 1, 1980, labor appointed Peter Tchirkow, from the United Food and Commercial Workers International Union and business appointed Ileane Rosenthal, from the National Association of Manufacturers to serve as Pay Advisory Committee staff. Ms. Rosenthal later resigned to complete her graduate studies and was replaced by Robert Gates of ALCOA. The labor and business representatives of the PAC were responsible for keeping abreast of COWPS actions, briefing the Chairman and the joint staffs on important developments prior to full Committee meetings. In addition, they served as liaison to the larger business and labor communities and brought to the attention of COWPS administrators specific pay concerns. In this area, there was concern (especially from some Council officials) that the Pay staff might interject its views into matters outside the Committee's responsibility. To help allay those concerns, and as part of the Committee's recommendations on modifications to the procedural rules, the Pay staff's duties were reduced to a formal statement. This procedural agreement, adopted by the Committee on April 8, 1980, outlined in reference to the role of the Pay Advisory Committee staff:

> Since the Advisory Committee will be free to take up policy issues that it feels could influence the disposition of classes of cases, the Committee's staff should be in a position to identify such possible situations whenever they arise . . . the COWPS staff will inform the Committee staff whenever a notice of inquiry has been issued. The

> Committee staff may attend all conferences between the COWPS staff and the parties . . . and the Committee staff will have access to all relevant data necessary to developing informed recommendations.

In summary, the role of the PAC staff evolved into one of an informal "ombudsmen," with primary responsibility to the Chairman's office, and the labor and management staff groups. The positions provided an important link between the COWPS and the tripartite committee, particularly on specific pay cases, draft regulations, and other administrative matters.

Interactions Between Joint Staff/PAC Staff With the Council on Wage and Price Stability

Both the joint staff and the PAC staff worked closely with the Council on various pay matters. The primary responsibility of the joint staff in this area was the coordination of policy matters and sessions with COWPS in order to translate the Committee recommendations into Council language. The meetings with the joint staff usually included the Director of the Council, the Chief Counsel and/or the Director of the Office of Pay Monitoring. In addition, the joint staff also worked with COWPS in reviewing draft regulations and draft Q&A's. Because the Council relied heavily on the regulatory approach to wage stabilization, the joint staff attempted to provide the Council with input concerning the impact on these draft regulations on the work force.

The Pay Advisory Committee staff worked with COWPS on specific pay exception cases and pending notices of inquiry, and reported back to the Committee (through the Chairman) the activities of the Council. Because the PAC staff was on the Council payroll, the staff had direct access to data supplied by companies and unions in specific pay matters. The staff would normally digest this information provided by the Office of Pay Monitoring and bring cases and policy issues to the attention of the Chairman before the Council publicized specific pay decisions.

In its role of assisting business and labor representatives in specific Council proceedings, the PAC staff would normally initiate telephone contact with the parties and would often suggest a meeting with the parties. These exploratory sessions were often scheduled in advance of a COWPS hearing or conference in which the labor and business representatives were expected to attend. The PAC staff would assist in sorting out cost and other data, examine the merits of various arguments which would likely be dissected by the Council officials, and generally explain to the parties where the possible resolutions to the case lay. If the Council had already issued a Notice of Inquiry to the affected parties, the PAC staff would immediately contact the parties to explore avenues to best resolve the specific case matters. This informal procedure was used extensively during the term of the Advisory Committee, and the feedback from business and labor representatives was supportive and appreciative of an informal liaison to assist companies and unions in specific council case matters.

COMMITEE RECOMMENDATIONS

The initial work of the Committee on "recommendations for modifications in the existing program was divided into four parts:

1. Tandem relationships (Appendix D);
2. Threshold for the low-wage exception (Appendix E);
3. Treatment of incremental (in-grade and step) increases (Appendix F); and
4. The general pay standards, the valuation of cost-of-living clauses, and related matters" (Appendix F).

The Committee took up the modification of the tandem exception as its first task. During the first program year the Council required that the leader-follower relationship be precise both in timing and amount, that the relationship be documented over a 6-year period, and that the parties be required to file for an exception on a case-by-case basis. It was the Committee's general views that the tandem exception should be flexible and realistic to take into account the varied nature of leader-follower relationships. It was not the program's intent, nor the Committee's, to disrupt existing wage relationships. Additionally, there was strong Committee appreciation for the variety of approaches to compensation management, particularly those of an intra-company or intra-industry nature. Therefore, the Committee unanimously recommended that the tandem be expanded to recognize long-standing relationships between pay rate increases of different employee units or between increases of an employee unit and those of a group of employee units or an identified labor market, so long as it could be demonstrated that the comparable pay rate changes have been substantially equivalent over a period of years. The recommendation also stated that employee units need not be in the same company, industry, or geographical area to establish the tandem relationship.

Finally, the Committee recommended that the tandem exception should be dealt with on a self-administered basis—a step to further recognize the administration of a voluntary program. The Council, after deliberations with the joint staff on the regulatory language, approved the tandem recommendations, and they appeared in the *Federal Register* on December 17, 1979.

The second Committee recommendation dealt with the low-wage exemption. In the first program year, workers earning $4 or less per hour in straight-time wages on September 30, 1978, were exempted. Although the Council had projected a 6 percent rise in the CPI during the first program year, inflation during this period exceeded 12 percent. It was apparent that hardships were placed disproportionately on lower wage workers. The $4 Council figure was evidently based on "usual" weekly and hourly earnings reported by family members in the Current Population Survey of Households in May 1978 rather than basing it on actual payroll distribution of hours worked. The Council claimed that the $4 exemption in the first program year exempted 30 percent of the work force.

On December 18, 1979, the Committee unanimously recommended that the entire employee units whose average straight-time hourly earnings were below $5.35 per hour (including individual low-wage exempted earnings) should be exempted from coverage. The $5.35 unit exemption was derived from the BLS "lower" level

income figures, supported by a staff review of where the actual problem sectors were, from an inflationary standpoint. The $4 individual low-wage exemption was retained. The employee unit exemption was a move toward simplification in complying with the pay standard and reflected comments made with respect to the difficulty and administrative expense of tracking individual workers as was required under the existing regulations. The Committee's recommendations were approved by the Council and published in the *Federal Register* on December 28, 1979. As an approach, it had the added benefit of settling an issue for the labor and management interests which had been divisive in all previous programs.

The third Committee action was modification of the standards governing treatment of incremental pay increases. Under the Council rules, the first year pay standard treated longevity increases as chargeable against the 7 percent pay standard, while qualificatior increases were not counted. In the public sector however, many step increases are not clearly one or the other, and in the first program year and there was considerable division among public sector entities as to whether or not to count step increases in calculating compliance plans. On December 18, the Committee issued its recommendation that all such longevity increases should be excluded from the pay standard, including "merit increases." Such increases in the Committee's view were more closely related to qualifications and performance and a part of pay practices intended to deal with expanding job requirements. The recommendation was adopted by the Council and subsequently published in the *Federal Register* on March 18, 1980.

The Committee next focused its attention on the pay standard itself. At its meeting on January 8, 1960, the Committee directed its joint staff to develop a paper in the form of a recommendation to the Council for a general pay standard comprised of a range from 7.5 percent to 9.5 percent. The Committee also agreed to raise the assumption for evaluating COLA clauses from 6.0 percent to 7.5 percent.

On January 22, 1980, the Committee issued its first general policy statement, the *Principles for Voluntary Pay Stabilization During 1980,* which detailed the 7.5 percent—9.5 percent wage standard recommendation, and the 7.5 percent COLA evaluation. The move towards a range, instead of a single numerical standard, was explained in part 2 of the Committee's policy statement:

> The principles for a general wage or salary increase in a unit have always led to a scattering or to a range of adjustments. This was a case in 1978 and 1979, and there is every reason to believe that 1980 will witness the same pattern. There is no basis for the proposition that settlements in collective bargaining or in private or public management determinations will tend to cluster at the bottom or top of the range standard, any more than they have clustered about a single number.

Indeed, wage changes for 1979 and 1980 showed a wide dispersion of percent increases. In 1979, wages did not cluster around a single numerical standard of 7 percent; in 1980, wage changes in collec-

tive bargaining were generally within the 7.5 percent to 9.5 percent range. This wage information is summarized in detail in Part V of this paper.

The change in the COLA clause evaluation (from 6 percent to 7.5 percent) was necessary to reflect a higher CPI in the first program year than what had been anticipated. The 6.0 percent COLA evaluation was incorporated in the guidelines when the CPI had been increasing roughly at an 8.0 percent annual figure. By the end of the first program year the CPI was increasing at an annual rate of more than 12.0 percent. Raising the inflation assumption tightens the standard because more is charged against the pay standard. The Committee viewed the increase in the COLA clause evaluation to 7.5 percent as appropriate, given the significant changes in the CPI in 1979. Any more dramatic change in the factor, however desirable from the Committee's standpoint, would have been a major disruption to the framework of the existing program. The Committee, in the interest of time, had decided to make important but marginal changes only in the program, and more realistic and appropriate treatment of COLA's would have required major revisions to the program.

Following the Committee's recommendations, the Administration and key members of the Committee conducted extensive discussions on the proposals. After nearly 2 months, on March 13, 1980, Dr. Alfred Kahn, Chairman of the Council, announced the Administration's acceptance of the recommendations retroactive to October 1, 1979. Dr. Kahn announced that settlements and wage determinations would be expected to average at the mid-point (8.5 percent). The Council additionally established a procedure which required notification to the Council for pay determinations or settlements reached above the 8.5 percent mid-point.

Subsequent to the announcement of acceptance of the Committee's recommendation, the Council implemented a new pay exception category designed to correct the inequities between the workers covered by COLA clauses and those not covered by such provisions during the first program year. See *Federal Register,* June 20, 1980.

The Committee's policy statement of January 22, 1980, contained important views of the stabilization policy in a broader sense. Because these views were of a guiding nature in later Committee actions, it would be appropriate to summarize the germane points (Text—Appendix G).

1. The document is based on a recognition that criteria for a general wage or salary increase in a unit of employees have always involved a variety of considerations, such as cost of living, ability to pay, profits, competitive conditions, productivity, labor availability, and comparable compensation in other establishments. As the Committee considered policy issues, such as those involved in classes of cases, particular recognition was given to these factors, rather than the rigid application of mechanistic guideline rules.

2. The Committee stated the need for continuing consultation with the view toward appropriate coordination of pay and price policies. During the duration of the Pay and Price Advisory Committees, there was consultation between the Chairmen of the Pay and Price Committees, particularly on the coordination and timing

of public policy statements and the appropriateness of sanctions in a voluntary program.

3. The Committees reached a consensus that 1980 should be a transitional year and that a return to free bargaining and free market policies was desirable as soon as conditions permitted. Subsequent statements by the Committee, notably those of September 16, 1980, and November 17, 1980, reaffirmed this view that wage controls, voluntary or otherwise, add a range of artificial factors to normal bargaining and pay arrangements which tend to distort relationships and market practices.

4. Significant (economic) changes in the outlook would likely invoke different policies. The views and recommendations of the Committee were based on the presumption represented by the Administration of some moderation in inflation rates towards the end of 1980, or at least no increase in the rate. During early 1980, however, there was no moderation in the inflation rate. Additionally, the guidelines did not deal with factors principally responsible for inflation in 1980, including food, housing, interest rates, energy, and medical costs. The changes in the economic realities played an important part in the Committee's ultimate recommendation to let the guidelines lapse at the end of 1980.

After the resolution of the pay standard and COLA evaluation, the Committee, in its next action, recommended changes in the COWPS internal procedures for dealing with noncompliance and other related administrative issues. An agreement was finalized on May 30, 1980, in a letter from Fred Kahn to Chairman Dunlop. Highlights of the "Procedural Agreement" were: (1) Placing labor and management staff representatives on the COWPS payroll to facilitate the work of the Committee; (2) changing the "Notice of Probable Noncompliance" for parties suspected of violating the guidelines to "Notice of Inquiry"; (3) modifying the COWPS procedures to permit Committee access to determining policy issues in classes of cases; and (4) an agreement not to publicize specific case matters until a formal decision was rendered. The text of the procedural agreement can be found in Appendix H.

The next Committee action was taken in the form of a Committee resolution dated May 9, 1980, with regard to certain wage and benefit programs conducted by the Bureau of Labor Statistics, Department of Labor. The Committee, subsequent to joint staff study of the issue, concluded that "more adequate and timely data on the earnings and benefits of the employees in the public sector would aid advisory committees such as the Pay Advisory Committee and labor and management in evaluating their wage and benefit decisions." The Committee recommended that four specific data needs be supported by the Bureau of Labor Statistics. Dr. Kahn subsequently gave his support to the resolution and forwarded it to the Secretary of Labor for proper consideration. The formal Committee resolution can be found in Appendix I.

Following the resolution on the public sector data, the Committee undertook a major effort to modify the treatment of pensions under the guidelines. The Committee requested joint staff to identify and suggest proper stabilization criteria in costing pensions, directed at developing alternative ways of treating pensions (over and above existing Council policy) in light of their complexity. It

was the Committee's view that pensions were not typically modified to avoid stabilization criteria and should be viewed accordingly and in terms of benefit levels as well as costs. The staff drafted initial recommendations which the Committee endorsed—followed by several meetings between the joint staff on the Council staff to implement the language (Appendix J). These changes can be summarized as follows:

1. Changes in nonpay related benefit levels (e.g., flat dollar benefits) that were necessary to maintain the same relative relationship between pensions and wages need only be charged up to the level of the pay standard. This permitted the equal treatment under the guidelines between pay related and nonpay related pension plans.
2. Pension changes would be considered to be in conformity if tandem benefit plans changes occur in an industry, occupation, or locality pattern.
3. The loading of pension benefit improvements into a single year of a multi-year pay plan or collective bargaining agreement would be permitted if this was a matter of past practice.
4. Certain pension improvement costs which resulted solely from the demographic composition of the employee unit would be excluded from pay calculation.
5. Special consideration should be given significant pension cost increases which result from plant closings or other unanticipated events.

The Committee's recommendations on pensions were accepted after extensive consultations between the joint staff and the Council staff and appeared as five new Q&A's in the *Federal Register* on October 6, 1980.

The Pay Standard Applied to Multi-Year Collective Bargaining Agreements

During the first program year the Council permitted 1 percentage point above the 7 percent pay standard to be added in any one year of a multi-year contract as long as the compounded annual rate of increase over the term of the agreement was in compliance with the standard. On March 18, 1980, the Council published the interim-final pay standard and accompanying changes reflecting the recommendations of the Pay Advisory Committee. Section 705.12(b) restated the language of the January 22, 1979, *Statement of Principles* of the Committee to the effect that "the first year of a multi-year agreement should conform to the second year pay standard and the collective bargaining agreement should continue the historical relationship of deferred increases to first-year increases." It was the Committee's explicit intent to continue the practice of providing for an additional 1 percent above the pay standard, as applied to multi-year agreements, so long as the compounded percent change remained within the second year pay range of 7.5 percent to 9.5 percent.

Nevertheless, on March 28, 1980, the Council issued a Question and Answer which stated that the Council would no longer permit the addition of 1 percentage point above the pay range to any one year of a multi-year agreement. As for its rationale for change, the Council noted that it had assumed that one of the reasons for

moving from a single numerical standard to a range was to provide for front-end loading within the pay range. This assumption was incorrect. The Committee's recommendation to move from a single numerical standard to a range was a result of factors other than the accommodation of front-end loading (Appendix F).

After a number of intense meetings between members of the Committee and Administration officials in which the Committee members confirmed their intention not to preclude an additional 1 percentage point above the standard (range) in any one year of a multi-year contract, the Council agreed to modify and revise its treatment of this issue. On June 20, 1980, the Council announced that it would revise Section 705.12(b) to provide that "the annual pay-rate increase may be no greater than 10.5 percent in any one year of a multi-year agreement."

Midway through the second program year, Dr. Kahn solicited the Committee's view on what should happen to the pay standard after October 1, 1980, the date on which the second year was scheduled to terminate. The Committee, in a policy statement released in concurrence with its September 16, 1980, meeting (Appendix K) unanimously recommended that the existing wage guidelines be extrapolated through the end of 1980. The Price Advisory Committee independently recommended a similar position for the price guidelines. The Pay Committee agreed to continue its review of the guidelines program and to submit at a later date its final recommendations on the advisability for the continuation of a guideline program. The September 16, 1980, policy statement specifically noted that "decisions regarding the question of future pay arrangements should not be made during a period when national economic policies are a prime political issue." The political issue was in reference to the forthcoming national elections on November 4, 1980. The Committee statement also urged that in the interim period after September 30, 1980, in accordance with the procedural agreement with the Council, that the Committee be consulted in advance in the interpretation and application of the current guidelines.

The Committee held its final meeting on November 17, 1980; and in connection with that meeting a number of recommendations were adopted.

ESOP's

In late April 1980, Dr. Kahn had requested the Committee to consider the appropriate status of employee stock ownership plans (ESOP's). Under the existing Council rules, ESOP contributions were included in the pay standard. The interest in possible modification for ESOP's was fueled primarily by Senator Russell B. Long, Democrat, Louisiana, who had a long-standing interest in the ESOP issue. The Pay Advisory Committee Chairman subsequently instructed the joint staff to study the issue and prepare an appropriate recommendation for the Committee's review. The Committee, on November 17, 1980, stated that contributions resulting from ESOP's should not be exempted from the guidelines. See Appendix L for the text of the recommendation. The Committee found, in part, that "modifying the treatment of ESOP's under the pay

standard could result in distortions in compensation which might otherwise not occur in the absence of the stabilization program. The policy toward ESOP's should be addressed without regard to the artificial qualities of income policy programs." The Council, in a letter to the Chairman dated December 15, 1980, voiced its approval of the Committee's position and further concluded that it would not change this aspect of the pay standard.

In addition to the ESOP recommendation, the Committee considered several additional pay related issues in its last meeting. First, in a letter dated November 12 (Appendix M), the Committee urged the Council not to issue proposed Q&A concerning front-end loading pursuant to wage reopeners, the rationale being that it did not seem wise to issue new Q&A's since the second program year had ended and a third year was unlikely. The Council subsequently agreed with the recommendation on this issue.

The Committee also issued a recommendation on the Council's policy regarding trigger-based COLA clauses. The Committee requested that the Council reconsider its treatment of such clauses in the glass container settlement be within an overall industry context and with less inflexibility. In a letter dated December 15, the Council responded by noting that it would not change its policy with regard to its method of costing trigger-type COLA arrangements and that in reference to the glass container settlements, these cases were subject to reconsideration by the Council if new facts or arguments were presented.

On another pay related issue, the Committee filed formal objection to existing COWPS Q&A No. 7 and No. 8 (Appendix N), governing the implementation of retroactive increases made pursuant to contracts negotiated during the first program year that are reopened during the second program year and in accordance with stabilization guidelines. This issue was brought to the Committee's attention in the Council's intervention in a particular labor-management wage dispute. The Committee advised that the Council's administration of Q No. 8, in particular, was inconsistent with and disruptive to the principles of collective bargaining since the Q&A in question in effect dictated to the parties how or how long such increases could be paid. In a letter to the Committee dated December 15, 1980, the Council reaffirmed its policy on these two Q&A's, unpersuaded by the Committee's rationale for modification.

The final action of the Committee was enunciated in its last policy statement of November 17, 1980, titled *Recommendations of the Pay Advisory Committee with Respect to the Wage Guidelines Program and Regulations.* The Committee unanimously recommended that the program, its regulations and sanctions, be allowed to lapse. Earlier in November, the Price Advisory Committee independently recommended that the present program be kept in place until a viable alternative could be developed.

The Pay Advisory Committee policy statement candidly acknowledged that the "voluntary program has lost its capacity to command effective support. Inflation has been too high and enduring and the regulations too complex and artificial." Defects in the current program were identified by labor and management as the elements of compulsion in a voluntary program; inadequacies of a single numerical guideline figure; absence of a coherent and equita-

ble process for resolving issues, and the failure of such a program to deal with the realities of collective bargaining and personnel management. The Committee further urged that the designers of future income programs be responsive to particular sectoral problems, an approach which was notably absent in the 1978–80 guidelines program.

On December 17, 1980, the Administration announced that it would abandon the 2-year-old wage and price guidelines. In a letter to the Pay Advisory Committee Chairman dated December 15, 1980, Charles Schultze, as acting Chairman of the Council on Wage and Price Stability, communicated that "in view of the imminent change in Administrations, we do not intend to promulgate final third year standards, nor to continue the formal monitoring of compliance with the current provisions of the standards." Along with the decision to terminate the guidelines, the charters of both the pay and price advisory committees expired quietly on December 31, 1980.

IV. TRANSLATING COMMITTEE RECOMMENDATIONS INTO REGULATORY LANGUAGE

As we described earlier, the first year of the anti-inflation program, although conceived as "voluntary," was characterized by adherence to a single numerical standard, complex and detailed regulations; precisely defined and specific exception procedures; and lengthy administrative noncompliance procedures. The general view of the Pay Advisory Committee was that if the program was, in fact, voluntary, it should rely on the cooperation and responsibility of the parties affected. The language of the Committee's recommendations reflected a move away from the above characteristics of the first year of the program, in that the recommendations were usually consensus policy statements in nonregulatory format. On any given issue under consideration, the normal process would be for the Chairman to announce that the joint staffs had reached general agreement on the issue. The full Committee would then adopt the recommendation in principle. Dr. Kahn, Chairman of the Council on Wage and Price Stability would then typically direct the COWPS staff to work with the Pay Advisory Committee joint staff in translating the Committee's recommendation into Council language. This process was utilized in almost all of the Committee's recommendations, and was particularly useful in resolving difficult issues, such as the treatment of pensions, and the appropriate pay standard for multi-year collective bargaining agreements. To the extent that snags developed in this process, it sometimes became necessary for the Chairman to meet with Dr. Kahn to assist the transference process.

The joint staff took great pains to insure that the final Council language reflected the Committee's intent and the spirit of its recommendations.

Compliance With the Federal Advisory Committee Act

In part III, we briefly mentioned the extensive use of the subcommittee approach by the Pay Advisory Committee was due in part to the constraints of the open meeting requirement imposed on the Committee. A more detailed summary of the Federal Committee Advisory Act and its requirements is appropriate.

The Act became law in October 1972 and established procedural requirements regarding the establishment of advisory committees and further specified guidelines on how meetings are to be conducted. One requirement for a meeting of an advisory committee is that it be open to the public. Exclusion from the general requirement of "openness" was based on nine exemptions contained in the Freedom of Information Act. All of the exemptions addressed documents to be excluded, with no distinction to purpose of a Committee. Earlier wage-price advisory committees had always handled

their affairs in private meetings except for those operating in phases III and IV of the Economic Stabilization program in 1971–74. All meetings of the Pay Advisory Committee were open to the public in compliance with the letter of the law. However, in addition to the regular open meetings, the Committee members met in separate caucuses and private meetings in order to reach a consensus among themselves and then on a tripartite basis, on the complex issues facing the Committee. A substantial amount of work on the modifications to the pay standard was accomplished through the various ad-hoc subcommittees. All of these sessions were held privately, away from public scrutiny.

Dr. Dunlop summarized his views on the open meeting requirements in his prepared testimony to the Subcommittee on the Economic Stabilization, Committee on Banking, Finance and Urban Affairs, March 20, 1980:

> . . . There is a need to state explicitly the difficulty with the present statute and its chilling effect on constructive discussions. Leaders or representatives of groups and organizations basically will not make concessions to other points of view and away from established positions and stated resolutions of their organizations, without having the opportunity in important matters to explain the reasons for changes to their key associates or constituents in their own words—and to state "what they got for it"—rather than have to rely on the explanations, tortured or otherwise, expressed to the press. It is well understood that international negotiations or discussions cannot be public and reach decisive results; it is no less true in discussions relating to wage policy, collective bargaining in the small or in the large.
>
> The country needs to provide for a reasonable change in policy relating to labor-management-government discussions of general economic policy.

Members of the Committee, were similarly critical of the open meeting requirement the basis for these objections being that tripartite committees concern themselves with collective bargaining process which is traditionally and necessarily private. The experience of the Committee is that it is essential to restrict the open meeting requirements of the Advisory Committee Act to provide for the free exchange of views.

Committee Concern With Due Process

One of labor's major concern with the Council on Wage and Price Stability was the lack of due process, particularly in the area of case handling. Labor felt strongly that a voluntary program, in particular, needed to provide at least the same due process considerations that were provided under previous mandatory stabilization efforts. One of the Committee's earliest assignments was to recommend changes in the COWPS internal procedures. After extensive discussions between labor, the business community, and the Administration, a set of procedural recommendations was adopted. This agreement set forth the prerogatives of the Pay Advisory

Committee. This procedural agreement also provided for significant changes in the COWPS internal procedures, which were intended to permit greater due process than had taken place in the first year of the program. Some of these changes were:

1. Committee prerogative to identify and take up policy issues that it felt could influence the disposition of classes of cases.
2. Changing in name and in character "notice of probable noncompliance" to "notice of inquiry," which the Committee felt was more accurate and descriptive of the process.
3. Active participation, through the Pay Advisory Committee staff, in Council proceedings and hearings on individual cases, to provide practical advice to the parties as to their options and COWPS procedures in general.
4. Committee staff access to all relevant data necessary to developing informed recommendations. In the first year of the program, only the management involved had access to cost and other supportive data necessary to respond to Council action.
5. An agreement that there would be no public statements about a specific case until a first decision had been rendered. This had been a significant problem in the program, especially where COWPS had issued public statements to the press during the course of several important negotiations.
6. Establishment of procedures for the Committee to consider issues raised by cases or questions of general policy in either the initial decision stage or reconsideration stage. This was especially important for due process considerations. During the first year of the guidelines, reconsiderations were processed by the same COWPS official who was responsible for the initial decision.

In summary, this procedural agreement was a move toward providing greater due process, equity, and labor-management input into the case handling procedures.

Two additional due process issues deserve discussion. The first of these deals with the Council rules with respect to employer notice to unions and the second issue relates to access to confidential data and routine forms. The first issue, employer notice to unions, surfaced late October 1979 when the Council deleted a requirement that employers provide notice to unions with copies of pending requests. The reason given by the Council was added administrative burden to the employer. Under all previous stabilization programs, companies were required to provide unions (and unions provide companies) with copies of pending requests. The service requirement was based on due process considerations. In retrospect, had the Committee been aware of the pending change to delete the service requirement, it may well have objected.

A similar deficiency was discovered in the Council's procedure for notifying the parties of decisions. In exception cases, the Council provided a copy of the decision only to the petitioning party (in an exception case) as an interested party. This position fundamentally ignored the balance of collective bargaining and illustrated the due process and equity problems with the administration of the program, which became an issue for the Committee.

The second due process issue, access to confidential data and routine COWPS data forms, warrants brief comment. Under the Council rules; the following reports were accorded blanket confidential-

ity: (1) Periodic reports requested by the Council such as the PAY-1; (2) any record, in whole or part, providing product line or other category data on an individual firm submitted voluntarily with a request for confidential treatment; and (3) any record, in whole or part, providing product line or other category data on an individual firm that is obtained by subpoena that is considered by COWPS to be confidential information. However, the procedural agreement discussed earlier recognized the need to evaluate data in the context of cases. To accomplish this, the procedures provided that the Committee staff have access to all relevant data, although access to confidential data in a particular case required the prior approval of the management or labor group submitting it. Additionally, the PAC staff pledged to maintain the confidentiality of the data.

It is worth noting, that the Council's perspective on confidentiality was much broader than in earlier mandatory stabilization efforts. The periodic reporting forms required during the Economic Stabilization Program, 1971–74, which included similar cost data were required to be served on all interested parties, including the union in a collective bargaining situation.

Committee Concern for Guideline Flexibility

It was the Committee's view that a voluntary stabilization program should be sufficiently flexible to address specific industry problems and circumstances which involve the normal give and take in the bargaining process. The Committee's recommendations reflected flexibility in recognition of the less than precise nature of pay relationship, both in the represented and nonrepresented sectors.

As its first task, the Committee broadened the treatment of the tandem exception rules to include labor market areas and to provide that the leader-follower relationship only had to be substantially equivalent. The Committee's recommendation on this issue recognized that tandem wage relationships rarely are exact, that timing varies greatly, as does the nature of the relationship. Failure to recognize the varied nature of tandem relationships would have created serious long-term inequities in established wage-setting practices.

A second example of the Committee's desire to recognize prevailing compensation arrangements can be found in the Committee's recommendations on treating pensions under the guidelines. During the first program year, pension increases (excluding government mandated costs) were included in the pay standard on a cost basis (the full amount of all cost increases due to improvements in pension costs were counted in determining pay-rate changes). The Committee recommended in June of 1980 five new Q&A's to provide the parties with an alternative way of accounting for pensions. These Q&A's were subsequently adopted by the Council (see appendix I) and recognized that pension plans need to be judged both as to level of benefits as well as costs. The recommendation further noted:

> Pension programs are complex benefits, with many features, which are adopted by managements alone or in collective bargaining only after careful studies projected from

time to time in response to views of long-term, not single year, considerations. They are not typically modified to avoid stabilization criteria. They reflect much more a concern with the fundamental problems of employees and managements over a longer period. . . . The costing of pension plans is most complex, and the differing composition of the work force of an enterprise affects very materially the costs of a given pension plan or schedule of benefits. Pension plans accordingly need to be judged both as to benefits as well as cost estimates.

Role of Sanctions

Under the Carter anti-inflation program of 1978–80, the principal means of enforcing cooperation with the wage and price standards was the threat of the use of the procurement sanction (withholding federal contracts from those companies not in compliance with the standards). On November 1, 1978, immediately following the announcement of the anti-inflation program, President Carter issued Executive Order 12092, entitled "Prohibition Against Inflationary Procurement Practices." The order directed the Council on Wage and Price Stability to issue guidelines to further define the standards for noninflationary pay and price behavior to be incorporated into government procurement contracts, monitor business compliance with them, and publicize the names of noncompliant firms. This order delegated to the Office of Federal Procurement Policy responsibility for administering the procurement sanctions. Each federal agency was requested to "insure that these contracts incorporate, on or after January 1, 1979, a clause which required compliance by the contractor, and by his subcontractors and suppliers, with the pay and price guidelines."

On January 4, 1979, the Office of Federal Procurement Policy issued additional directives which stated, in part: "Companies determined not to be in compliance with the standards, are ineligible for federal government contracts in excess of 5 million dollars, unless noncompliance is waived by the government."

The announced procurement policy was immediately met with opposition from both labor and management. In March of 1979, the AFL–CIO and nine affiliated unions filed suit to block the Administration from enforcing the contract debarment procedures, arguing that such sanctions were not consistent with the voluntary nature of the program; that such sanctions interfered with the unencumbered nature of normal collective bargaining; and that the Council on Wage and Price Stability Act specifically prohibited the imposition of mandatory wage-price controls. In a decision reached on May 31, 1979, the U.S. District Court for the District of Columbia voided the debarment authority under the wage-price guidelines. The Court found that in the (current) voluntary program, an element of compulsion is inherent and ever present and beyond the claimed statutory authority of the Council on Wage and Price Stability. On appeal, this decision was reversed by the Court of Appeals on June 22, 1979, and subsequently, the U.S. Supreme Court refused to consider the AFL–CIO suit. The Court of Appeals reversal was based on several considerations: (1) The procurement pro-

gram is, in fact, not mandatory since it is not associated with any fines and/or injunctions; (2) the procurement compliance program does not fall within the coverage of Section 3(B) of the Council on Wage and Price Stability Act; and, finally, the Executive Order 12092 does not impinge on the policy of collective bargaining.

On the wage side, the procurement sanction was never used to deny a government contract. This can be directly attributed to the national accord between the AFL-CIO and the Administration reached in late September 1979. In return for labor's support for the Administration's anti-inflation programs, the Administration gave an unwritten commitment not to invoke the procurement sanction. Although companies were never denied federal contracts on the basis of guidelines violations, the Office of Federal Procurement Policy maintained and published a list of wage-price violators. The procurement procedures served a secondary purpose for the Administration—it was used on both the wage and price side to jawbone and interject criticism into collective bargaining matters and pricing decisions. In 1979, the Council directly intervened in the United Rubber Workers negotiations with the big four companies (Uniroyal, Firestone, Goodrich, and Goodyear). Council officials publicly denounced the terms of the proposed agreement with Uniroyal, threatened contract debarment, and otherwise interjected its presence during the bargaining process. A lengthy strike ensued.

Evaluation of the Manner by Which COWPS Promulgated Regulations

During the term of the wage and price guidelines, the regulations became more detailed and complex. As the beginning of the second program year approached, the Committee was faced with over 50 pages of wage regulations and over 100 Q&A's intended to provide direction for complying with the standards. The Pay Advisory Committee found this approach inconsistent with the principles of voluntary stabilization and an unnecessary regulatory burden on those who sought to comply. Moreover, the PAC found that the regulatory approach made it difficult to deal flexibly with wage problems in a labor relations context and was basically unresponsive to industry problems and the subtleties of the wage-setting process. The proliferation of regulations resulted in a more rigid guideline and reduced needed flexibility.

The Committee did not play an active role in the day-to-day COWPS rule-making process. However, there emerged an informal procedure where COWPS would consult, in advance, with the Committee's Chairman on proposed rules and Q&A's. The Chairman would then "sound out" the proposed rule with key members of the Committee and the joint staff. This procedure often resulted in a modification of the proposed rule or, in rare cases, Council concurrence not to publish a disputed Q&A.

The Council engaged in the practice of avoiding the regular agency rule-making process by claiming that a number of its regulations were based on emergency situations. Regulations embodied in the guidelines for the second year were labeled "interim-final rules" rather than in the proposed form that is accepted agency

practice. In addition, the Council provided 30-day rather than the customary 60-day, public comment period on proposed rules. The Council basically took the position that because the program was voluntary, it did not have to comply with the same rule-making procedures as is required by other federal regulatory agencies.

As a result, often impractical and confusing proposals were published prematurely leading to unnecessary disruptions to wage setting and a loss of credibility in the program.

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V. COMMITTEE INVOLVEMENT IN CASE MATTERS

An additional topic that a tripartite labor-management group must address and resolve is what role should it play in the administration of its own policies. Many economists and others closely involved with previous stabilization efforts argued that tripartite groups such as the Pay Advisory Committee should limit their activities to the development of economic stabilization policy and avoid intervention in case matters. The initial view of the labor representatives was that the COWPS procedures in the case handling area were inadequate, particularly as they related to due process, hearings, and the appeals procedures. The labor representatives felt strongly that the Committee should play an active role in resolving specific case matters. Precedent could be found in previous stabilization efforts, most notably Phases II, III, and IV of the Economic Stabilization Program during 1971–74, where tripartite committees played an active role in resolving complex and difficult case matters.

The view of the business representatives was that the Pay Advisory Committee should not become an adjudicatory body, but rather should limit its activities to matters of economic stabilization policy. The Committee first developed an approach to this potentially difficult issue as part of its January 22, 1980, policy statement:

> The Committee intends next to review the procedures used to judge the conformance of parties with this program and will make appropriate recommendations including a procedure for referral to the Committee of cases that involve policy issues.

This review immediately followed, and based on the work of the joint staff and procedures subcommittee, the Committee issued, on April 8, 1980, its recommendations with respect to the Council's procedures. On the subject of the involvement of the Committee in policy issue cases, the recommendation noted:

> Policy issues that will influence the disposition of classes of cases should be reviewed by the Pay Advisory Committee. Such issues may arise either on referral by the COWPS or may be raised by the Pay Advisory Committee's own motion; at any stage of the processing through the usual COWPS procedure. . . . The Pay Advisory Committee staff can initiate a detailed review with COWPS of cases which the Committee Chairperson believes may involve a policy issue.

In essence, this position struck middle ground between labor's concern for involvement with all cases and business' desire for the Committee to make recommendations only on matters of stabiliza-

tion policy. On May 9, 1980, in a letter from Dr. Kahn, to Chairman Dunlop, the Council adopted the Commmittee's recommendations.

Committee Action in Specific Classes of Cases

The Committee's first case-related intervention occurred in regard to the issue of how cost-of-living formulas involving triggers should be cost-evaluated.

In April 1980, the major glass container companies reached 3-year agreements with the Glass Bottle Blowers' Association. The agreements provided a COLA pay out which was based on 1 cent =0.5 change in the CPI, *after* the CPI had advanced 9 percent. The parties had also agreed to the introduction of more efficient plant machinery, although no specific contractual language was modified.

On August 21, 1980, the Council issued Notices of Inquiry with respect to the pattern-setting agreement, finding reason to believe that the agreement was not in compliance with the second program year. A conference was held on September 29, 1980, with representatives of the lead company and the Council staff to discuss the settlements in the context of the pay guidelines. The Pay Advisory Committee staff, with the concurrence of the company, attended and participated in the conference. This was consistent with the Pay Advisory Committee staff responsibilities to identify and evaluate policy issues that should be brought to the Committee Chairman's attention.

On November 7, 1980, the Council issued an initial determination of noncompliance. Immediately thereafter the Pay Advisory Committee staff recommended that the joint staff and the full Committee examine potential policy issues in the handling of the glass container settlements. It was the staff's view that the (COWPS) handling of a COLA that did not meet the technical criteria under the guidelines (and therefore was costed out in a disadvantageous manner), even though it produced less upward push on wages, was of significant policy interest to the Committee. Under the Council rules, "trigger-in" COLA arrangements, like those in the glass container settlements, which specify a COLA pay out only after the CPI reaches a set level or percentage, may not be costed out using the normal 7.5 percent pricing evaluation. The Pay Advisory Committee communicated to the Council in a letter dated November 12, 1980, that the Council should look at such COLA-related cases and that they be examined within their context and with less inflexibility. In addition to the COLA policy issue, it was the Committee's view that the handling of the glass container settlements illustrated the counterproductive effect of adherence to mechanistic and administrative guideline interpretation. Other factors must be recognized, such as (1) application of front-end loading patterns in a specific industry/company where the contract is consistent with historically established patterns of front-end loading; (2) the necessity to "give and take" to create a climate for continued gains in productivity, even though specific work rule changes are not reduced to a contractual arrangement for a specific trade-off; and (3) the inequities of judging the entire diverse spectrum of

industry settlements against narrowly defined guidelines as opposed to the actual restraint reflected in relation to prior settlements, external comparisons, and internal equity.

The Council responded to the Pay Advisory Committee recommendation on these policy issues in a letter to the Chairman dated December 15, 1980. On the matter of the Council's policy on trigger COLA arrangements, the Council stated that because trigger COLA's, unlike unqualified COLA's, eliminate the downside risk that unqualified COLA's normally have, trigger COLA's cannot be evaluated prospectively. The Council's position, thus, refused to acknowledge that trigger-type COLA arrangements generally produce less upward push on wages or that these COLA arrangements should be afforded guideline pricing similar to non-trigger COLA arrangements. With respect to the Committee urging that the glass container settlements be looked at within their context and with less inflexibility, the Council noted that the initial decision of noncompliance was subject to Council reconsideration if new facts or arguments were presented. The termination of the wage-price guidelines on January 29, 1981, by President Reagan resulted in no further action by the Council; and the glass container cases, among others, were closed without further action.

A second illustration of Committee activity in case-related policy issues emerged in the Council's handling of retroactive increases made under the wage guidelines. The Council's handling of this issue reflected the Committee's concerns with regard to counterproductive stabilization intervention in a voluntary program.

The issue of retroactivity surfaced after the revised second year pay standards were issued on March 13, 1980. Because the pay standard in the second year was higher than in the first year, parties wanted to know if they could take advantage of the higher pay rate increases. To provide some direction on this issue, the Council issued, without consultation with the Pay Advisory Committee, two Questions and Answers. The first Q&A, No. 7, was directed to collective bargaining contracts negotiated in the first program year which were reopened in the second program year. The Council directive on this matter stated that increases negotiated under this reopener should be in conformity with the second year pay range and that these increases may be made retroactive to October 1, 1979.

The second Q&A, No. 8, stated that in (retroactive) cases where increases are made retroactive to October 1, 1979, the additional amounts are *not* to be considered in the computation (italic added) of the base rate for the second program year.

The Committee did not take strong issue on the computational aspect of these retroactive increases, although it was of the view that the base should reflect appropriate retroactive payments. What was of greater concern to the Committee however, was that the Council staff was administering the application of these two Q&A's substantially beyond the scope of voluntary stabilization by stating in interpretive letters to parties that such retroactive increases are to be considered lump sum pay arrangements which cease to be paid at the end of a given period. In a letter to the Council dated November 17, 1980, the Committee expressed its view that the Council policy with respect to retroactive increases is

completely contrary, inconsistent, and disruptive to the principles of collective bargaining since it is in effect dictating to the parties how or for how long they are to be paid. The Council disagreed. In a letter to the Chairman dated December 15, 1980, the Council Director stated that the policy on retroactive increases allowed only specified increases under the pay standard and in no way is its administration disruptive to the collective bargaining process. Nevertheless, the Committee felt that Council interjection in matters of internal compensation arrangements conflicted with how a truly voluntary program should operate.

COLA/Non-COLA Issue

During the first year it became apparent that *non-COLA* units had been seriously disadvantaged vis-a-vis COLA covered units. This was due to the use of an assumed 6 percent inflation rate for evaluating COLA clauses under the standard. As the CPI moved above this assumed rate, those employee units with COLA clauses continued to receive wage increases, however, the excess above that amount produced by the assumed rate of inflation was not charged against the standard. At the same time, non-COLA employee units were held to the maximum increases allowed under the standard. This problem became more severe as inflation climbed substantially above the assumed level into double digits during the first year. The inequities that this produced were evident from public comments, primarily from the business community, but also reflected in Council and other public statements.

On October 2, 1979, the Council published its proposed second year price standard and at the same time announced that the first-year standard would continue until the Pay Advisory Committee had an opportunity to make its recommendations. During the interim—the last quarter of 1979 and the first quarter of 1980—the Council implemented a 1 percentage point catch-up adjustment for workers in employee units that were in compliance during the first program year and who did not have cost-of-living adjustment clauses. This exception of up to 1 percent was expected to be self-administered. Attempts were made to further refine the treatment of COLA/non-COLA inequities in a series of Questions and Answers that appeared in the Federal Register on October 12, 19, and November 19, 1979. Thus, the pay standard for non-COLA covered workers who complied with the first year standard became 8 percent in the interim period before the second year pay standard was announced. Companies were encouraged by the Council to seek additional relief through the gross inequity exception if the 1 percent self-administered adjustment did not eliminate the inequity.

This inadequate treatment of a still-serious inequity became the basis for a continuing issue between the Pay Advisory Committee and the Council in the context of a presumably voluntary program. By and large, the business community strongly felt that such adjustments were to wipe out first-year inequities and should be charged against the first-year standard of 7 percent. On the other hand, the Council strongly asserted that interim increases should be considered an advancement against the second-year guidelines and were to be costed with other second-year pay adjustments.

In its recommendations for the second-year pay guidelines the Pay Advisory Committee sought to place on a par managements or parties that use COLA clauses and those that were non-COLA covered or used only specified dollars-and-cents adjustments. It was felt that the incentive for indexation, unintended as it might have been, should be eliminated. The Committee moved in this direction in its recommendations regarding the tandem adjustment and in recommending the use of a 7.5 percent inflation rate in the evaluation of COLA clauses. The use of a 7.5 percent assumed rate of inflation together with the use of gross inequity exceptions served to somewhat mitigate the COLA/non-COLA inequities during the remainder of the guidelines program.

Pay/Price Targets

After the Pay Advisory Committee recommended revising the pay standard to the range of 7.5 percent–9.5 percent, the Price Advisory Committee recommended on April 9, 1980, that the price standard be loosened to maintain the nexus between the pay and price standard. Specifically, the Price Committee recommended an increase of three-fourths percentage point in the aggregate price standard to take into account the relaxed pay standard. The Administration did not accept the blanket relaxation of the price standard, but did agree to recognize and adjust price limitations on an industry-wide or company basis, to recognize uncontrollable increases not only for labor costs but for other costs as well.

Wage Data

At this juncture, it may be helpful to present some data on wage changes during 1979 and 1980 in order to provide a factual setting for the work of the Pay Advisory Committee. In order to present available data on the largest universe of wage movements, under collective bargaining and managerial determinations combined, Table I presents an array of changes in gross average hourly earnings for private non-supervisory employees in non-farm establishments in the period (1) December 1978–December 1979 and (2) December 1979–December 1980. These data combine enterprises that were under collective bargaining agreements negotiated in 1979 and 1980 and those that were not under collective bargaining. The data include increases generated as a result of Cost of Living escalator clauses.

Data from 1978 to 1979 show that the percentage changes in gross average hourly earnings, among the 375 three and four digit industry groups, ranged from an increase of 1.2 percent in Local and Suburban Transportation (SIC 411) with 75,800 employees to an increase of 15.2 percent in Industrial Controls (SIC 3622) with 72,100 employees. Roughly 83 percent of total employment received increases at or above 7 percent. The data in Table I also show that wage changes were widely arrayed from December 1978 to December 1979, and that wage changes did not cluster around a 7 percent guideline in any noticeable way.

Data from 1979 to 1980 (Table II) show a similar array of wage changes. Percentage changes in gross average hourly earnings ranged from 0.72 percent for Local and Suburban Transportation

(SIC 411) to 16.7 percent for Cigarettes (SIC 211). Roughly 48 percent of employment received wage increases at or below 8.99 percent; roughly 51 percent of employment received wage increases at or above 9 percent.

TABLE I.—*Distribution of employment by percent increase in average hourly earnings, December 1978–December 1979*

	Number of employees, December 1979 (thousands)	Percent of total employment [1]	Cumulative percent of total employment [1]
Percent change in average hourly earnings:			
Below 0	0	0	0
0 to 0.99	0	0	0
1 to 1.99	123	.1	.1
2 to 2.99	0	0	.1
3 to 3.99	84	.1	.2
4 to 4.99	1,703	2.5	2.7
5 to 5.99	2,989	4.4	7.1
6 to 6.99	6,489	9.5	16.6
7 to 7.99	18,093	26.5	43.1
8 to 8.99	19,521	28.6	71.7
9 to 9.99	12,232	17.9	89.6
10 to 10.99	3,792	5.6	95.2
11 to 11.99	1,690	2.5	97.7
12 to 12.99	765	1.1	98.8
13 to 13.99	596	.8	99.6
14 and over	72	.2	99.8

[1] Total employment of 68,148,300 as represented in 375 three and four digit SIC industries. Special tabulation by Bureau of Labor Statistics staff, compiled from data derived from the Non-Farm Payroll Establishment Survey, September 1981.

TABLE II.—*Distribution of employment by percent increase in average hourly earnings, December 1979–December 1980*

	Number of employees, December 1980 (thousands)	Percent of total employment [1]	Cumulative percent of total employment [1]
Percent change in average hourly earnings:			
Below 0	0	0	0
0 to 0.99	79	.1	.1
1 to 1.99	0	0	.1
2 to 2.99	46	.1	.2
3 to 3.99	0	0	.2
4 to 4.99	182	.3	.5
5 to 5.99	3,229	4.8	5.3
6 to 6.99	3,253	4.8	10.1
7 to 7.99	5,871	8.7	18.8
8 to 8.99	20,138	30.0	48.8
9 to 9.99	12,669	18.9	67.7
10 to 10.99	12,493	18.6	86.3
11 to 11.99	4,916	7.3	93.6
12 to 12.99	2,121	3.2	96.8
13 to 13.99	1,402	2.1	98.9
14 and over	869	1.2	100.0

[1] Total employment of 67,148,300 as represented in 375 three and four digit SIC industries. Special tabulation by Bureau of Labor Statistics staff, compiled from data derived from the Non-Farm Payroll Establishment Survey, September 1981.

Data on first-year wage rate adjustments in collective bargaining agreements generally covering 1,000 or more workers in 1979 are presented in Table II. These adjustments exclude fringe benefits and also exclude any effects from COLA arrangements. There were 3.3 million workers involved. The mean first year wage adjustment was 7.4 percent; the median first year wage adjustment was 7.7 percent.

TABLE III.—*First-year wage-rate adjustment in settlements covering 1,000 or more workers, 1979*

Rate of adjustment [1]	Percent of workers affected—		
	All industries	Manufacturing	Nonmanufacturing
All actions	100	100	100
No wage change	4	(2)	10
Decreases			
Increases	96	100	90
Under 6 percent	28	45	5
6 and under 8 percent	20	20	19
8 and under 10 percent	29	15	47
10 and under 12 percent	15	17	12
12 percent and over	4	2	7
Number of workers (thousands)	3,282	1,860	1,422
Mean adjustment (percent)	7.4	7.0	7.9
Median adjustment (percent)	7.7	7.1	8.6

[1] Percent of estimated average hourly earnings, excluding overtime. Presents changes in wage rates decided upon during the period and effective within 12 months of the effective date of the agreement.
[2] Less than 0.5 percent.

NOTE.—Because of rounding, sums of individual items may not equal totals.

Source: Bureau of Labor Statistics release, Jan. 28, 1980, USDL 80-50, p. 10.

Data for 1980 on first-year wage rate adjustments in settlements covering 1,000 or more workers is shown in Table III. There were 3.7 million workers involved. The mean first-year wage adjustment was 9.5 percent; the median first-year wage adjustment was 9.4 percent.

TABLE IV.—*First-year wage-rate adjustment in settlements covering 1,000 or more workers, 1980*

Rate of adjustment [1]	Percent of workers affected—		
	All industries	Manufacturing	Nonmanufacturing
All actions	100	100	100
No wage change	1	1	[2]
Decreases			
Increases	100	100	100
Under 4 percent	3	7	1
4 and under 6 percent	15	33	3
6 and under 8 percent	10	16	5
8 and under 10 percent	35	19	47
10 and under 12 percent	17	21	15
12 and under 14 percent	7	2	10
14 and under 16 percent	5	1	8

TABLE IV.—*First-year wage-rate adjustment in settlements covering 1,000 or more workers, 1980*—Continued

Rate of adjustment [1]	Percent of workers affected—		
	All industries	Manufacturing	Nonmanufacturing
16 percent and over	6	1	10
Number of workers (in thousands)	3,720	1,539	2,181
Mean adjustment (percent)	9.5	7.3	11.0
Median adjustment (percent)	9.4	6.6	9.4

[1] Percent of estimated average hourly earnings, excluding overtime. Presents changes in wage rates decided upon during the period and effective within 12 months of the effective date of the agreement.
[2] Less than 0.5 percent.

NOTE.—Because of rounding, sums of individual items may not equal totals.

The collective bargaining wage change data for 1979 and 1980, Tables II and III, give additional strength to the observation that wage changes in this period were widely arrayed; in 1979 wage changes did not cluster around the 7 percent guideline figure. In 1980 wage changes did not cluster at the top, nor the bottom of the pay range.

VI. CONCLUSION

The voluntary wage and price guidelines pursued by President Carter during the period 1978–80 will be recorded as this country's second effort at peacetime economic controls. Unlike the previous mandatory peacetime program in effect under President Nixon during 1971–74, the Carter guidelines lacked statutory authority. Guideline policy and administration in the first year of the program, 1978–79, was directed by the independent Executive Branch office—the Council on Wage and Price Stability. The Pay and Price Committees were established concurrent with the second year of the program in September 1979 to provide for greater public, business, and labor participation. Although the guidelines were originally designed to operate based on voluntary cooperation, the business and labor communities viewed many elements of the first year guideline policy as only appropriate for the administration of a mandatory program. The recommendations of the tripartite Pay Advisory Committee, in retrospect, reflected the Committee's view that a voluntary program, especially one without any legislative authority, should operate based on the principles of voluntarism. To this end, the Committee viewed the use of sanctions as inappropriate; attempted to provide more self-administration for those parties who desired to comply; improved due process and equity considerations in the program; and recommended changes in the pay standard to more realistically reflect pay arrangements in the public and private sectors.

Because the tripartite Committee was created well after the stabilization program began and at a time when a guidelines framework, staff, regulations and procedures were well entrenched, it moved carefully on changes to the pay standard, and made marginal changes in some areas where under different circumstances it would have required major revisions. This was particularly true with respect to the Committee's recommendations on COLA and the treatment of pensions under the voluntary guidelines. Nevertheless, the Committee issued 16 unanimous recommendations during its 13-month tenure, as well as several stabilization policy statements. Additionally, had the Committee been established in the formative stages of the program, it may well have developed sectoral approaches to voluntary pay stabilization, particularly in areas of the economy which were a problem from an inflationary standpoint.

The meetings of the Pay Advisory Committee were open to the public in accordance with the requirements of the Federal Advisory Committee Act. The Committee viewed this requirement as detrimental to the private exchange necessary to reach consensus. The experience of this tripartite committee is that it is essential to restrict the open meeting requirement of the Advisory Committee Act to provide for the free exchange of views.

Appendix. BACKGROUND DOCUMENTS AND COMMITTEE RECOMMENDATIONS

Appendix A

NATIONAL ACCORD BETWEEN THE ADMINISTRATION AND THE AMERICAN LABOR LEADERSHIP JOINTLY ISSUED BY THE AFL-CIO AND THE WHITE HOUSE

A NATIONAL ACCORD

The Administration -- American Labor Leadership
September 28, 1979

- To provide for American labor's involvement and cooperation with the Administration on important national issues.
- To deal effectively with inflation in an equitable manner, consistent with the historic values of our nation.
- To assure that the austerity arising from battling inflation is fairly shared, while protecting those members of society who are least able to bear the burden.
- To pursue our established national goals of full employment, price stability and balanced growth.
- To maintain and enhance the preeminence of America at home and abroad.

All Americans share a common commitment to achieve our Nation's economic goals of full employment, price stability and balanced growth as set forth in the Full Employment and Balanced Growth Act of 1978.

Recently, progress has been impaired by high and persistent rates of inflation. Inflation has built up over the past fifteen years, and in the last six has been aggravated by extraordinary increases in world petroleum and other energy prices.

The causes of inflation are many. But it is now deeply embedded in our economic structure. Inflation is a clear and present danger. It threatens our ability to achieve full employment; it reduces real incomes and values; it dries up job creating investments; it impedes productivity; it breeds recession; and it falls most heavily on those least able to bear the burden.

The war against inflation must be the top priority of government and of private individuals and institutions. There is no quick or simple solution. The war must be waged through a comprehensive strategy on all fronts on a continuing basis. But it should not mean

acceptance of higher than otherwise levels of unemployment.

To accept such levels of unemployment in the name of fighting inflation is inconsistent with the equitable sharing of sacrifice. The pursuit of full employment and balanced growth as set forth in the 1978 Act is essential to the ultimate elimination of budget deficits, the achievement of economic stability and the realization of social and economic justice.

It is imperative that we overcome inflation in order to provide adequately for the general welfare and for the national security. It is also essential in order to assure our continued technological, industrial and humanitarian leadership.

To deal effectively with inflation requires discipline and restraint. This will mean a period of austerity for Americans -- individual and collective sacrifices for a time so that we may then enjoy the greater bounty of our land in the years to come.

Such austerity must be fairly shared. The burdens need to be distributed equitably. And in the process we must protect those least advantaged in our society, who are not able to bear the costs.

Full involvement and cooperation of the private sector is necessary in order to wring out inflation and to attain our goals of full employment and price stability.

Therefore, this National Accord has been undertaken to evidence and provide for the continued involvement and cooperation of American labor leadership with the Administration for this purpose.

1. General Economic Policies. It is recognized that a disciplined fiscal policy is needed to counter inflation. Close control should be exercised over Federal expenditures; and budget deficits should be minimized, giving due regard to the state of the business cycle

and the social and economic needs of our society. The revenues required for targeted programs and pressing national needs should not be dissipated by general tax cuts in conflict with the principle of shared austerity. Spending and taxing decisions within this framework must be and can be made consistent with the long-term goals of full employment, price stability and balanced growth.

2. Countercyclical Economic Policies. The current recessionary conditions developed following the large increase in world oil prices in the second quarter. Policies should be directed toward moderating and reversing the resulting down-turn. Established countercyclical programs will automatically come into play to help in this regard. Further counter actions need to be approached with care, so as to avoid new inflationary pressures. Nevertheless, if the recession deepens, well balanced responses of appropriate scale should be prepared and ready for action giving due regard to any required Congressional approvals, to emphasis on actions that have anti-inflation as well as anti-unemployment characteristics, and to practical operational limitations. These include:

- Programs to shelter the poor and needy from the twin ravages of inflation and recession.
- Additional skills training to help remedy structural unemployment.
- Public works that provide jobs while at the same time contributing to anti-inflation objectives, such as public transit projects funded by the proposed oil windfall profits tax.

- Improved implementation and expansion of jobs programs.
- Policies to assure access to capital for the housing industry, with emphasis upon availability of financing, at reasonable cost, to low and moderate income families.
- Appropriate tax relief targeted to offset inflation on the one hand while on the other contributing to anti-inflation through job creation, productivity improvement and cost reduction -- particularly in areas most severely affected by high unemployment and economic adversity.

3. Pay-Price Policies. An important aspect of the anti-inflation effort is responsible behavior with respect to pay and prices. For the past year, a voluntary program of pay and price restraint has been used.

In the present circumstances, continued constraint is required on the overall levels of price and compensation increases consistent with achieving a reduction in the rate of inflation. After extensive public consultations, the program for the second year has been established with provision for greater public participation, while maintaining the clear objectives of containment and deceleration of inflation.

Direct participation by labor, business and other public representatives will make a major contribution toward a fair and workable program which will achieve the overall goals.

The Federal Government must continue to show leadership in moderation. Federal pay action for fiscal 1980 has therefore been taken in the context of both fairness and continued restraint.

4. International. International developments in the post war era have led to greater economic interdependence among nations. In this environment, a demonstrated commitment to an effective anti-inflation program and to bringing our current account into balance is necessary in order to avoid adding to domestic inflation and to prevent disturbances in international trade and finance.

We must therefore seek both a reduction in dependence upon imported oil and an expansion of exports. An increase in exports will create additional American jobs. At the same time, all international trade must be fair so that American jobs are not threatened by unfair restrictions on American goods and services or by unfair subsidies for goods and services of other countries.

Where American jobs are impacted by international trade developments, adjustment assistance for American workers needs to be prompt and adequate.

The United States also should pursue maritime policies which will promote a strong merchant marine and assure that expanding American flag shipping services will make a growing contribution to the reduction of our balance of payments deficit.

5. Energy. In view of the availability, location and cost of oil and gas, our nation must reduce its dependence on petroleum as an energy source and particularly its dependence on imported petroleum.

Toward that end, the President has proposed a comprehensive energy program, which includes conservation measures, limitations on oil imports and a windfall profits tax

to capture some of the increased revenues from higher oil prices for public purposes. Proceeds from the windfall profits tax will be used to help finance the development of unconventional energy sources, such as synthetic fuels; to carry out projects which conserve overall energy requirements, such as expanded public transit facilities; to provide incentives for greater conservation; and to extend financial relief from higher energy costs for the poor and needy.

These vital features of the President's energy program are of critical importance and should be carried out by Congressional and other actions as rapidly as possible.

6. Human Environment. It is also important to continue pursuit of the goal of improving the quality of the human environment. This includes cooperation on programs to assure safe living and working places and to improve health services available to Americans.

7. Other Matters. The specific areas set forth in this Accord are not intended to be exhaustive. There are other matters which currently deserve mutual consideration and others will arise in the future. Those will be part of an on-going agenda.

8. Continuing Consultations. The essence of this National Accord is involvement and cooperation. The process is by its nature dynamic and evolutionary. It is our purpose to establish procedures for continuing consultations between American labor leadership and the Administration on these and other issues of vital concern to working people, as workers and as citizens.

Appendix B

EXECUTIVE ORDER ON SECOND YEAR OF THE ANTI-INFLATION PROGRAM ISSUED BY THE WHITE HOUSE

(Issued September 28, 1979; Published 44 FR 192, October 2, 1979)

By the authority vested in me as President and as Commander in Chief of the Armed Forces by the Constitution and statutes of the United States of America, including the Council on Wage and Price Stability Act, as amended (12 U.S.C. 1904 note), and the Federal Property and Administrative Services Act of 1949, as amended (40 U.S.C. 486(a)), and in order to supplement the anti-inflation program established on November 3, 1978, Section 1-102 of Executive Order No. 12092 is hereby amended to read as follows:

"1-102. Anti-inflationary wage and price behavior shall be measured by the following standards:

(a) For prices, anti-inflationary price behavior of a company is a current rate of average price increase no greater than its historical rate of price increase during 1976-1977, except where the company experiences uncontrollable increases in the prices of the goods and services it buys, and subject to the provisions of paragraphs (c) and (d).

(b) For pay, anti-inflationary pay behavior is the holding of pay increases to not more than 7 percent annually above their recent historical levels, subject to the provisions of paragraphs (c) and (d).

(c) These standards, which shall be further defined or modified by the Chairman of the Council on Wage and Price Stability, shall be subject to limitations and exceptions as determined by the Chairman and shall be administered so as to take into account any inequities that may have been created by the standards during the past year.

(d) The Council is directed to reconstitute in accordance with the Federal Advisory Committee Act, as amended, a Pay Advisory Committee and a Price Advisory Committee in order to provide greater participation by the public in the anti-inflation program. The Pay Advisory Committee and the Price Advisory Committee will advise the Council on developing policies that encourage anti-inflationary pay and price behavior by private industry, employers, and labor, that decelerate the rate of inflation and that provide for a fair and equitable distribution of the burden of restraint. To the extent permitted by law, the Council is directed to provide the Pay and Price Advisory Committees with all information required to perform their duties.".

Appendix C

COUNCIL ON WAGE AND PRICE STABILITY

REVISED CHARTER
for the
PAY ADVISORY COMMITTEE

(44 FR 60366, October 19, 1979)

(1) The Official Designation

This Committee will be designated as the Pay Advisory Committee.

(2) The Objectives and Scope of Activities

The function of the Committee is to provide public participation and advice to the Council on Wage and Price Stability (Council) on encouraging anti-inflationary pay behavior by private industry, employers, and labor, decelerating the rate of inflation, and providing for a fair and equitable distribution of the burden of restraint.

(3) Description of Duties of the Committee

The duties and responsibilities of the Committee are:

(a) To submit, by October 31, 1979, its recommendations for modifications, if any, to the pay standard, including specifically the basic pay standard, the inflation assumption for evaluating cost-of-living adjustment clauses, the threshold for the low-wage exemption, the treatment of increments and tandem relationships, and the appropriate adjustment for employee units not covered by cost-of-living adjustment clauses;

(b) To recommend changes, if any, to pay exception and noncompliance decisions of the Council;

(c) To recommend new or revised interpretations of the pay standard;

(d) To make such other recommendations with respect to the voluntary compliance program that assure fairness and equity in individual cases and that are consistent with the overall objective of the anti-inflation program.

(4) Membership

The Committee shall consist of eighteen members, six each from labor, business, and the public. Alternates may serve in place of the Chairman and members from labor and business with respect to recommendations under Paragraph 3 (b), (c), and (d). The President will select the members and alternates and will designate one of the public members as Chairman. Both the members and the alternates will be appointed by the Chairman of the Council.

(5) Estimated Number and Frequency of Meetings

The Committee will meet regularly once a month and at such other times as the Chairman may determine.

(6) Procedures of the Committee

(a) Quorum

Twelve members of the Committee, four each from labor, business, and the public, shall constitute a quorum. Recommendations of the Committee shall require the affirmative vote of ten or more members.

(b) Conflict of Interest

No member shall participate in the consideration of any matter if such participation would create a conflict of interest under applicable statutes and regulations.

(7) Designated Agency Official

The designated agency official who will attend each meeting of the Committee and perform such other functions as are required by law is the Chairman of the Council (or his designee).

(8) Agency Responsibility for Providing Support

The Council shall provide support for the Committee and, consistent with applicable statutes and regulations, shall furnish all information as may be required by the Committee to carry out its duties and responsibilities. The Office of Pay Monitoring of the Council will furnish staff support for the Committee.

(9) Duration of the Committee

The Committee will continue until September 30, 1980, unless the Council terminates the Committee earlier, or extends it, in accordance with need and the public interest.

(10) Estimated Annual Operating Costs

The Committee may require an expenditure of approximately $5,000 (one fifth of a man-year) in Fiscal Year 1980.

(11) Approval of Revised Charter

Sally Katzen
Advisory Committee Management Officer

Date Filed: October 16, 1979

Appendix D

EXECUTIVE OFFICE OF THE PRESIDENT
COUNCIL ON WAGE AND PRICE STABILITY
726 JACKSON PLACE N.W.
WASHINGTON, D.C. 20506

November 30, 1979

Dear John:

I have received your November 28 transmittal of the document developed by the joint staff of the Pay Advisory Committee to implement the policy recommendation on tandem exceptions unanimously adopted by the Committee on November 6, 1979.

The Council accepts the recommendation as we understand it. The Council staff has therefore begun drafting a revision of our tandem exception, with accompanying questions and answers, incorporating this recommendation, as well as developing the procedural mechanism for administering it. We will be discussing these revisions with the joint staff of the Committee.

Sincerely,

Alfred E. Kahn
Chairman

Dr. John T. Dunlop
Chairman
Pay Advisory Committee
Baker Library, Rm. 236
Harvard Business School
Boston, Massachusetts 02163

TO: Dr. John Dunlop November 28, 1979

You requested that the labor and management staffs of the Pay Advisory Committee prepare a draft tandem relationship exception that would carry out the unanimous vote of the Committee taken November 6 with regard to this matter.

We have developed the attached draft and reviewed it with the business and labor members of the Committee. As the Committee requested, we have also discussed the draft with COWPS staff and sought their technical assistance to ensure the language would carry out the Committee's intent. In this regard, we were advised that changes in the procedural regulations may be required to deal with the self-administered feature and that the COWPS General Counsel should be asked to review the matter.

We recommend on behalf of the labor and business members that the attached draft exception request be reviewed by you and other public members, and submitted to COWPS for their consideration and promulgation.

Respectfully,

John C. Read

Frank Pollara

TANDEM RELATIONSHIP

Proposal for Second Program Year

Pay-rate changes in an employee unit that have been linked regularly to pay changes in another employee unit or group of employee units will be excepted where the leader is either in compliance with or exempt from coverage of the pay standard. Pay changes in an employee unit that have been linked regularly to pay changes in a labor market area also will be excepted. In order to establish such linkage, the parties must be able to demonstrate substantial equivalency or consistency over a period of years in the relationship of the past pay increases in an employee unit with the linked past pay increases in another employee unit, group of employee units or labor market area. Employee units need not be in the same company, industry or labor market area. When such historical relationships do exist, a company may self-administer such an exception.

Questions and Answers

To aid in further clarification of the tandem exception, the following questions and answers are provided:

1. Q. Why is the tandem exception being modified from that of the first program year?

   A. The exception is being modified to recognize additional forms of historical leader-follower (tandem) pay relationships in wages and/or benefits and thereby avoid inequities and distortions which a narrower interpretation of the definition of tandem tends to create.

2. Q. Is this definition of tandem significantly different from the definition in effect during the first program year?

   A. Yes. This definition of tandem permits the continuation of an historical relationship between employee units. In order to qualify for a tandem exception, pay increases

need not necessarily be identical in terms of the value and timing. In addition, it recognizes and permits exceptions for longstanding relationships between employee units or between employee units and an industry pay increase or labor market area pay movements. Employee units known to be out of compliance shall not be included in such labor market area surveys.

3. Q. What does an employer have to do to receive a tandem exception?

   A. All employers may self-administer tandem exceptions where they are able to show a consistent historical pay relationship. Employers should be able to demonstrate that such a relationship has existed for a period of years and have records available for inspection upon request.

   There can be no precise measure as to how close the pay movements of the follower must be with the leader. However, where there has been a difference historically between pay movements, the employer should be able to demonstrate the basis for that difference.

4. Q. Can an employee unit which does not have cost-of-living protection be linked with an employee unit which does receive cost-of-living protection?

   A. Yes, provided that there is an historical relationship between the employee unit not receiving a cost-of-living adjustment (COLA) with the unit which does receive cost-of-living protection, and that unit receiving said cost-of-living protection has remained in compliance or is exempt from coverage. This relationship can be demonstrated by showing substantial equivalency over a period of years.

5. Q. Is the tandem exception applicable to individual elements of pay as well as total pay?

   A. Yes, provided that the criteria set forth in the standards covering tandem relationships are met. However, where a tandem exception is applied to individual elements of pay such as health or retirement plans, the base-period costs for these elements should be excluded from all calculations in determining compliance.

To: Dr. John Dunlop December 18, 1979

At your request, the labor and management staffs of the Pay Advisory Committee have prepared the following recommendations for the Committee's consideration in revising the Low-Wage Exemption of the voluntary guideline program:

1. Employee units whose average straight-time hourly earnings are below $5.35/hour (including individual low-wage exempted earnings) should be exempt from coverage. Earnings are to be based upon the period July 1979 through September 1979 or a comparable representative period.
2. The existing individual low-wage exemption should be continued for the present.

An optional method for calculating the individual low-wage exemption is also proposed which would allow low-wage workers to be included in a larger unit, but exclude from the calculation their increases above a standard.

Respectfully,

John C. Read

Frank Pollara

Appendix E

December 18, 1979

INCREMENTAL PAY

The principles set forth below should aid CWPS in the resolution of particular cases affecting incremental pay. Refinement for administrative purposes may be required because of the great variety of incremental pay programs and because different terms are often used to describe step increases. The staffs of the Pay Advisory Committee will be pleased to work with CWPS in this regard.

Proposal for Second Program Year

Existing incremental pay plans and practices which provide for qualification increases to the job rate level and other incremental increases associated with defined improvements in an employee's job related credential such as completion of an educational or vocational training program and other regularly programmed increment increases including longevity increases in established pay plans shall be excepted from the pay standard when compliance is measured by the fixed-population method or in collective bargaining situations.

Changes in existing pay plan relationships that would increase the cost of such increments or the institution of a new increment pay program shall be charged against the pay standard.

Appendix F

Jan. 22, 1980

PRINCIPLES FOR VOLUNTARY PAY STABILIZATION DURING 1980

A voluntary pay stabilization program for 1980 with the active participation of labor and management should comprise the following principles.

1. The criteria for a general wage or salary increase in a unit of employees have always involved, in collective bargaining or in private or public determinations, a variety of considerations such as cost-of-living, ability to pay, profits, competitive conditions, productivity, labor availability, comparable compensation in other establishments, etc.

2. The principles for a general wage or salary increase in a unit have always led to a scattering or to a range of adjustments. That was the case in 1978 and 1979, and there is every reason that 1980 will witness the same pattern. There is no basis for the proposition that settlements in collective bargaining or in private or public management determinations will tend to cluster at the bottom or the top of the range standard, any more than they have clustered about a single number.

3. In 1980 the country is in a period of austerity and all economic policies must conform to this reality. Hence, the general pay standard should be comprised of a range of 7.5-9.5%. Settlements or wage determinations in the normal circumstances should be expected to average about the midpoint of the range (8.5%). In settlements or management determinations reached within the range, collective bargaining parties and managements determining pay unilaterally should consider the criteria set forth in paragraph 1 above appropriate to their situation.

4. Pay adjustments below the low end of the range may occur in circumstances involving criteria such as industry practice, prevailing competitive conditions, ability to pay considerations, prior levels of settlement, etc.

5. Pay adjustments above the range may occur in circumstances involving the following criteria: productivity improvements, acute labor shortage, gross inequity or undue hardship. Such adjustments with appropriate justification may be subject to government review based on these criteria. Policy issues regarding the interpretation of these criteria, or the application of additional criteria for classes of cases, will be considered by the Pay Advisory Committee during the period ahead.

6. The Tandem exception and low wage and increment exemption regulations as revised are an integral part of the program. Tandem and carry-over from the first program year may be self-administered within or above the range.

7. For purposes of determining conformity with the voluntary program, the following additional recommendations are proposed:

   (a) Cost of living formula generated increases should be estimated using a 7.5% costing assumption.

   (b) The 1% equity adjustment for non-COLA groups should continue on a self-administered basis for those who qualified but have not yet availed themselves of the adjustment. The resulting pay increase should be considered as part of the first program year increase for computational purposes.

   (c) The first year of multiyear agreements should conform with the criteria outlined for the second program year. The collective bargaining parties should continue the historical relationship of deferred increases to first year increases.

8. As previously stated, the Committee recognizes the need for continuing consultation with the view toward appropriate coordination of pay and price policies.

9. The Committee is of the view that 1980 should be a transitional year and that a return to free bargaining and free market policies is desirable as soon as conditions permit.

10. The Committee intends next to review the procedures used to judge the conformance of parties with this program and will make appropriate recommendations including a procedure for referral to the Committee of cases that may involve policy issues.

11. All economic policies of private groups, and governments as well, are made on some presumptions as to the economic outlook and expectations. Significant changes in the outlook are likely to induce different policies. Wage policies, standards and specific decisions are no exception. The views and recommendations outlined above are based upon the presumptions represented by the Administration of some moderation in inflation rates towards the end of the year, or at least no increase in the rate. The Committee will continue to monitor the inflationary outlook and economic circumstances and will make additional recommendation as appropriate.

These recommended pay standards are made with the recognition that a voluntary program can succeed only (1) if it is voluntary in fact, and (2) if there is genuine commitment toward its objective.

Hence we affirm our appreciation of the importance to the nation of achieving the objective of reducing inflation throughout the economy as soon as practical.

Moreover, we recognize that this objective cannot be achieved unless all segments of the economy, including government policy, reflect their fair measure of support.

It is the intent of Labor and Management to make its proportionate share of contribution through these new pay standards.

Appendix G

April 8, 1980

Dr. John T. Dunlop

Pursuant to the Pay Advisory Committee's request, the joint staff has reviewed the Council on Wage and Price Stability's procedures in general terms and makes the following policy recommendations for the committee's consideration, adoption, and recommendation to the Chairman of the Council on Wage and Price Stability:

1. The Pay Advisory Committee consistent with the agreed Principles for Voluntary Pay Stabilization During 1980 and the Charter of the Committee will make recommendations to COWPS on policy issues that may arise out of particular cases.

   a. Policy issues that will influence the disposition of classes of cases should be reviewed by the Pay Advisory Committee. Such issues may arise either on referral by the COWPS or may be raised by the Pay Advisory Committee's own motion; at any stage of the processing through the usual COWPS procedures.

   b. The Pay Advisory Committee may decline to consider the issue or may recommend the appropriate resolution of the particular issue for application by COWPS.

2. CWPS should make greater use of the expertise available through the Pay Advisory Committee and its staff to facilitate informed judgments on particular cases.

   a. The Pay Advisory Committee staff will support the Pay Advisory Committee in the conduct of its business and generally facilitate communication between COWPS's staff, business and labor.

   b. The Pay Advisory Committee staff will be available to provide information and reports on the status of particular cases to the respective parties.

   c. The Pay Advisory Committee staff can initiate a detailed review with COWPS of cases which the Committee Chairperson believes may involve a policy issue.

   d. The Pay Advisory Committee staff will have access to all relevant data necessary to developing informed recommendations, but access to confidential data involved in a particular case requires the prior approval of the management and/or union submitting the data. The Pay Advisory Committee staff members will maintain the confidentiality of data so designated.

3. COWPS with the assistance of the Pay Advisory Committee staff and consistent with the principles of equity and due process should seek solutions to pay problems through improved procedures.

   a. Informal conferences should be available to the parties prior

to the issuance of a Notice of Inquiry or denial of an exception request. Committee staff should be informed when such conferences are offered.

b. The Pay Advisory Committee Chairperson and staff should be informed concurrent with the parties that CWPS is issuing a Notice of Inquiry or denying the request for an exception.

c. Existing appeals procedures should be revised to cover determinations of nonconformity and the denial of exceptions and should provide, if requested, a hearing before a hearing officer knowledgeable in industry wage-setting practices. Such hearing officer should be selected from a panel recommended by the Chairperson of the Pay Advisory Committee and will make recommendations to the Director of COWPS on the disposition of the case.

4. There should be no public statements by the Pay Advisory Committee or COWPS on specific cases until a decision has been issued.

John C. Read

Frank Pollara

Appendix H

May 9, 1980

The joint committee staff has reviewed and recommends the following proposal:

PAY ADVISORY COMMITTEE POSITION ON BUREAU OF LABOR STATISTICS WAGE AND BENEFIT DATA SURVEY PROGRAMS

Based on the Pay Advisory Committee's experience with the lack of available information on employee earnings in the public sector particularly at the state and local level, we have concluded that more adequate and timely data on the earnings and benefits of the employees in the public sector would aid advisory committees such as the Pay Advisory Committee and labor and management in evaluating their wage and benefit decisions. The Committee also believes that there is a need for the BLS to restore recently discontinued programs on fringe benefits. Therefore, the Pay Advisory Committee urges a review of existing earnings programs in the public and private sector by the appropriate advisory committees of BLS, namely the Labor and Management Advisory Committees. To provide a framework for the BLS Advisory Committee's discussions in this area, the Pay Adviscry Committee suggests that the following data needs be evaluated:

- Expansion of private sector series to include data on state and local government employees, including such series as average weekly earnings and collective bargaining settlements.
- Expenditures for fringe benefits in both the private and public sectors.
- Information on large pension and health benefit programs.
- The history of collective bargaining developments in major industries.

Ileane Rosenthal

Peter Tchirkow

Appendix I

May 9, 1980

Dr. John T. Dunlop:

Pursuant to the Pay Advisory Committee's request, the joint staff has reviewed the current CWPS pension standard and makes the following statement and recommendations:

Pension programs are complex benefits, with many features, which are adopted by managements alone or in collective bargaining only after careful studies projected from time to time in response to views of long term, not single year, considerations. They are not typically modified to avoid stabilization criteria. They reflect much more a concern with the fundamental problems of employees and managements over a longer period. Moreover, ERISA requirements have sought to define longer term standards.

In 1980 pension plans developed privately face many difficult questions such as the changing age distribution, inflation impacts on retired employees, relations to social security programs, employment trends and sex composition of a work force, funding requirements, and the future viability of the employment base and enterprises, etc. It is vital that managements and parties to collective bargaining confront such questions directly and in their long-term interests rather than through somewhat artificial stabilization rules.

The costing of pension plans is most complex, and the differing composition of the work force of an enterprise affects very materially the costs of a given pension plan or schedule of benefits. Pension plans accordingly need to be judged both as to benefits as well as cost estimates. Therefore, parties may exercise the election of either treating pension changes under current regulations, or deal with pensions separately as described below.

In treating pension provisions, the following should apply:

1. To preserve equity between pay related benefit plans and non-pay related plans, adjustments in non-pay related plans that maintain the same relative relationship between pension benefits and wages that has existed over a period of recent years shall be considered to conform to the voluntary program, if the wage changes conform.

2. Pensions will be considered to be in conformity if they reflect benefit plans that exist in an industry or occupation/locality pattern, if in conformity with the existing tandem regulations.

3. Costs resulting from improvements in pension programs, made under a multi-year pension agreement or a periodic review (not more frequently than three years), may be averaged over the life of that multi-year agreement or three year review period, rather than charged to a single year.

4. It is recognized that for a given industry or locality pattern of benefits, pension costs may differ substantially solely because of the demographic make-up of an employee unit, even though the level of benefits is substantially the same. Increases in pension costs beyond the standard which result solely from the demographic make-up of an employee unit shall be permitted provided the industry or locality pattern of wage and benefit increases is in compliance with the standard.

In such cases, the parties or management alone should be authorized to make such changes on a self-administered basis provided they maintain a record of such changes and the data on the general practice in the industry or locality for verification.

The standards recognize that not all situations causing hardship or inequity can be anticipated, and thus an exception for undue hardship or gross inequity is provided. There are special classes of cases, relative to pensions, which must be dealt with by CWPS on a case-by-case basis. Such cases might be the result of plant closings, shifts in the work force due to technological change, or other causes. We would encourage CWPS to give special consideration to such cases under either the gross inequity or undue hardship exceptions.

Ileane F. Rosenthal

Ileane F. Rosenthal

Peter Tchirkow

Peter Tchirkow

Appendix J

Dr. John T. Dunlop:

The Committee staff recommends the following statement:

The second year of voluntary guidelines is scheduled to expire on September 30, 1980. At the Pay Advisory Committee meeting of July 15, 1980, Dr. Kahn asked the Committee to consider what should happen to the pay standards after September 30, 1980.

The Pay Advisory Committee presented its recommendations to the Council with respect to the second year pay standards in January of 1980. In the Committee's January 22 statement entitled, "Principles for Voluntary Pay Stabilization During 1980" it said:

> "The Committee is of the view that 1980 should be a transitional year out of formal voluntary standards and that a return to free bargaining and free market policies as early as practical is essential."

The Committee recognized in these earlier deliberations that wage controls, voluntary or otherwise, add a range of artificial factors to normal bargaining and pay arrangements which tend to distort relationships and market practices.

In November the Committee will complete a review of its January 22 position quoted above and will submit final comments as to whether a continuation of a guideline program for an additional period is advisable. Consultation is important concerning appropriate coordination of pay and price policies.

In considering its recommendations for the period after September 30, 1980, the Committee makes the following observations:

- The economic indicators are producing a high degree of uncertainty about the future direction and pace of the economy.
- Decisions regarding the question of future pay arrangements should not be made during a period when national economic policies are a prime political issue.
- The guidelines do not deal with factors principally responsible for inflation in 1980, including food, housing, interest rates, energy and medical costs.

The present program should be extrapolated through the end of 1980. Pay determinations made during this period in conformance with such guidelines should not be subject to subsequent challenge. Based on an examination of the present guidelines and Q-and-A's, the Committee finds that the existing

rules can be applied in a common sense fashion to pay arrangements made after September 30, 1980. In accordance with its procedural agreement with the Council and with Dr. Kahn's recent assurances, the Committee feels strongly that any problems in the form of published Q-and-A's or rules which do arise in the interpretation and application of the current guidelines to this further period should be addressed through consultation and discussion in advance with the Committee or its chairman.

John C. Read

Rudy A. Oswald

Appendix K

Pay Advisory Committee

November 12, 1980

Dr. Charles Schultze
Chairman
Council on Wage and Price Stability
Executive Office Building
Washington, D.C. 20506

Dear Charlie:

In a letter communicated to me on April 30, 1980, Dr. Kahn asked the Committee to consider the appropriate status of Employee Stock Ownership Plans (ESOPS) in context with the treatment already afforded by the Council to Tax Reduction Act Employee Ownership Plans (TRAESOPS). Under the existing Council rules, TRAESOPS are excluded from the limitations of the wage and salary standard, since they are not employer costs, but rather result from money available under the investment tax credit.

The joint staffs of the Pay Advisory Committee find no rationale for affording similar treatment to ESOPS. These reasons have been communicated to me as follows:

1. The Office of Pay Monitoring reports of only one pay case where the treatment of ESOPS is a germane issue.

2. Modifying the treatment of ESOPS could be inconsistent with the Council's requirement that executive compensation be counted against the pay standard, and could result in more favorable compensation treatment to employees in general.

3. To modify the treatment of ESOPS under the pay standard could result in distortions in compensation which might otherwise not occur in the absence of a stabilization program. The policy toward ESOPS should be addressed without regard to the artificial qualities of incomes policy programs.

4. Finally, in this late period of the second program year, in which the pay standard has been extrapolated to December 31, 1980, it does not seem wise to affect long term wage policy.

We trust this letter answers Dr. Kahn's request. We would encourage the Pay Office to bring to our attention, for policy review, any pay determination where the application of current rules would result in an inequity.

Sincerely,

John T. Dunlop
Chairman, Pay Advisory
Committee

Appendix L

Pay Advisory Committee

November 12, 1980

R. Robert Russell
Director
Council on Wage and Price Stability
Winder Building
Washington, D.C., 20506

Dear Bob:

The Committee's staff has brought a matter of policy to my attention. At my direction, in accordance with our agreed upon procedures, the joint staffs and the Chairmen of the several sides of the Pay Advisory Committee have studied the matter.

This question of policy is involved in the glass container industry settlement relative to the handling of a COLA --- with a corridor or trigger-in clause --- which does not meet the technical criteria under the guidelines and is therefore costed out in a disadvantageous manner, even though it produces less upward push on wages than a COLA that would meet the definitions. We urge that such cases be looked at within their context and with less inflexibility.

Sincerely,

John T. Dunlop

Dr. John T. Dunlop
Chairman
Pay Advisory Committee

Appendix M

Pay Advisory Committee

November 17, 1980

Robert Russell
Director,
Council on Wage and Price Stability

Dear Bob:

You will recall that at the Pay Advisory Committee meeting on September 16, 1980, I had formally requested the Council to provide background information concerning Q&A's #7 and #8, as published in the Federal Register on June 3, 1980. The Q&A's in question address the Council's position regarding the implementation of retroactive increases as a result of the revised second year pay standard.

On October 24, 1980, you responded to my request by providing the additional background materials. Consistent with our procedural agreement which sets forth the Committee's role in examining policy issues and classes of cases, the joint staffs and the Chairman have reviewed these Q&A's and now make the following recommendations.

Q&A #7, as we understand the issue, addresses what increases are available to collective bargaining units under contracts negotiated in the first program year that are subsequently reopened in the second program year. The Council's position is that increases granted under collective bargaining contracts that are subsequently reopened during the second program year must not be above 7.5%-9.5% range, absent an exception. The Pay Advisory Committee concurrs with the Council's position on this part of the retroactivity issue.

The joint staffs and the Chairman have also examined the facts relating to the interpretation of Q&A #8, which addresses the implementation of these retroactive increases permitted under Q&A #7 in collective bargaining situations. It is our understanding that the Council will not permit these retroactive increases to be included in the base period pay rates.

We strongly believe that the policy enunciated in Q&A #8 is inconsistent with and disruptive to the principles of collective bargaining and wage setting generally. To provide additional increases under reopeners is in a sense akin to deferred wage increases which traditionally are put into the base. Where the negotiations permit such increases they shall not attempt to dictate to the parties how or for how long they are to be paid.

The Committee, therefore, recommends that, for collective bargaining units, the Council's policy on Q&A #8 be modified to permit the inclusion of retroactive increases in the base.

Sincerely,

John T. Dunlop

John T. Dunlop

Appendix N

November 17, 1980

Recommendations of the Pay Advisory Committee

with respect to the

Wage Guidelines Program and Regulations

Based upon its ongoing review of the operation of the current stabilization program, the Pay Advisory Committee concludes that the present "voluntary program" has lost its capacity to command effective support. Inflation has been too high and enduring and the regulations too complex and artificial. The guidelines do not deal with many of the factors which have been responsible for the current inflation, including food, housing, interest rates, energy, medical and other costs.

Moreover, the program has done little to focus the imagination and creativity of business and labor on genuine problems of individual sectors. These sectoral and selective problems include: competitiveness, living standards, fringe benefits, productivity, training, and more creative approaches to bargaining.

It is important that economic policy makers fully understand the defects of the program of the last two years as seen by labor and management in the private and public sectors: the inadequacies of any single numerical guideline figure; inequity between COLA and non-COLA treatment; the consequences of artificial pricing of fringe benefits and the failure to consider benefit levels as well as costs; the absence of a coherent and equitable process for resolving issues; the consequences of compulsion in a "voluntary" program; the failure of such a program to deal with the realities of collective bargaining and personnel management, etc.

For all of these reasons, it is the recommendation of the Committee that the present program and its regulations and sanctions should be allowed to lapse.

Economic policies of the 1980s must recognize the persistence of world wide oil and food supply and distribution problems simultaneous with the need to modernize much of our nation's industrial base and housing stock. The nation needs to move towards a full employment economy that puts to work today's idled manpower and machines. These problems are not insoluble, but more effective efforts to combat inflation and unemployment will require creative economic thinking, combined with a high degree of cooperation between the public, labor, and business.

Recessions, unemployment and underutilized resources will not serve to bring perceptible and sustained progress towards stability. The ravages of inflation are too costly and too damaging to our society to even imply that we must learn to live with it. Developing multi-faceted efforts to seek constructive solutions are required.

Attempts at longer term approaches to economic stability encompassing discussions among representatives of labor, management, and the public, should include a review of their responsibilities and potentials in particular sectors. To be successful, discussions should be substantive and should be conducted in a private manner to assure candor and a free exchange of views. Such discussions could identify specific concerns in critical sectors and encourage appropriate approaches associated with wider economic, industrial, and human resource policies.

○